

TAB 240

Judy G. Grastorf

05/29/2001 04:51 PM
To: Andrew Plunkett/US/OGC/PwC
cc:
Subject: AHERF- Recent Discussions

----- Forwarded by Judy G. Grastorf/US/ABAS/PwC on 05/29/2001 04:55 PM -----

To: Jay Brodish/ABS/Price Waterhouse@Price Waterhouse-US, Erica Baird/OGC/Price Waterhouse@Price Waterhouse-US, Ben Korbly/ABS/Price Waterhouse@Price Waterhouse-US, Mel Hope/ABS/Price Waterhouse@Price Waterhouse-US
cc:
From: Jim Stalder
Date: 10/10/98 09:47:04 AM
Subject: AHERF- Recent Discussions

For the record, the following meeting/ discussions have taken place over the past few days:

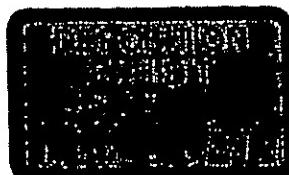
1. On Thursday, Oct. 8, 1998 Ben Korbly and I met with the following individuals over lunch at the Duquesne Club (in a private suite):

*David Barnes	Chairman of Audit Committee
*Ira Gumberg	Member of Audit Committee
*Chuck Queenan	Kirkpatrick & Lockhart
*David Murdock	Kirkpatrick & Lockhart
*David McClenahan	Kirkpatrick & Lockhart

In general, we set forth and discussed the agenda items which had been previously discussed with Barnes last Monday morning, placing significant emphasis on the SAS 82 communication requirements and the recent "findings" of fact from within the AHERF financial organization regarding the "reserve accounting". Considerable attention was also focused on the Mellon letter regarding the endowment accounting. We gave a copy of the Mellon letter as well as an excerpt from SAS 82 to the lawyers. Ben agreed to provide the lawyers with a copy of several requested items. The meeting concluded with our strong suggestion that the fact finding continue in earnest next week so as to permit us to be more responsive to the questions which must be answered. We made it clear that to accomplish this objective, we had to have the full cooperation of the key financial people. Ben and I exited to permit Barnes to discuss these matters with counsel.

2. On Friday morning, I received a call from Barnes requesting that I summarize our "needs" (to proceed forward expeditiously) on a single piece of paper such that he could use it as a memory jogger for a meeting he was going to have at noon with Sanzo and Dionisio. I drafted such, cleared it with Ben and faxed it to Barnes in time for his meeting.

3. Barnes called me around 2:00 to confirm that he had met with Tony and Joe and made it very clear to them that resolution of the open issues was a top priority. He instructed that we proceed full steam ahead with the objective of being ready for a meeting with the Audit Committee the week of Oct. 19. (We had suggested in our earlier note to him that he attempt to schedule the meeting as soon as possible to get it on everyone's calendar). Mel- David made it very clear that if we encounter any delay at all, we should contact him immediately and he will jump in and get things back on track.



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4. Lee Power (lead counsel to the bankrupt estate) called shortly after my discussion with Barnes. He explained that his office had just received "a very nasty call" from four SEC lawyers. He explained that he did not have his files with him and asked that I refresh his memory as to the four items that were on the table at the last Audit Committee meeting. He mentioned that he envisioned the need for a sit down, face to face, meeting with the SEC and suggested that Joe and I be present. I made it clear that (a) I was not the right guy (we agreed that it would probably be Ben) and (b) that any participation on our part would be with the advice and approval (and perhaps participation) of our counsel. I gave him the telephone numbers of Messrs. Barron and Korby. I informed him of our meeting with Barnes and of fact that Mr. Barron was in discussions with the SEC.

5. While in an "update" discussion with Ben, I received a call from Frank Barron

REDACTED

6. Joe Dionisio called and asked to confirm that the \$28 M discussed with Barnes was the same \$28 M that was on the table with the Audit Committee last month. I confirmed that, to our knowledge, it was but that it was the recent revelations as to the recording thereof that were most disconcerting. I also mentioned that it remained unclear how the \$28 M related to the \$14M which was on the "net effects" schedule at the time the accounts were cleared. We discussed the commitment that has been made regarding the "no holds barred" effort to be made next week in preparation for a meeting with the Audit Committee the following week. Like Barnes, he pledged his full support for the effort and instructed that we contact him immediately if the process gets delayed in any way.

7. Ben and I then discussed this matter with Rob Selpelic, the senior manager on the ground at AHERF to request that he make certain that the staffing is in place to get the job done next week, at least to the maximum degree possible given the volume of data to be reviewed. He will pursue this with Mel immediately. Ben agreed that he would stay on top of the process throughout the week.

Sorry for the length. Obviously, a lot happened yesterday.

TAB 241

**ALLEGHENY HEALTH, EDUCATION & RESEARCH FOUNDATION
FINANCE AND AUDIT COMMITTEE
Pittsburgh, Pennsylvania**

A meeting of the Finance and Audit Committee of Allegheny Health, Education and Research Foundation was held on Wednesday, October 28, 1998, at 12:00 noon in the Board Room of Allegheny University Hospitals-Allegheny General, Pittsburgh, Pennsylvania. The meeting was called pursuant to notice duly given to each member of the Committee. A copy of the notice is appended to the original minutes of this meeting. The following individuals were present:

<u>Members Present</u>	<u>Other Invitees</u>	<u>Members Absent</u>
J. David Barnes	Frank Barron	Harry Edelman, III
Douglas D. Danforth*	(Cravath, Swaine & Moore)	Paul D. Neuwirth
Ira J. Gumberg	Joseph D. Dionisio	
Robert B. Palmer*	Carol Gordon	
Randall L.C Russell, Ph.D.	Mel Hope (PricewaterhouseCoopers)	<u>Invitees Absent</u>
	Ben Korbly (PricewaterhouseCoopers)	Lee D. Powar, Esq.
	David L. McClenahan, Esq. (Kirkpatrick & Lockhart)	
	Charles P. Morrison	
	Charles J. Queenan, Esq. (Kirkpatrick & Lockhart)	
	Anthony M. Sanzo	
	Wendy Smith, Esq. (Kirkpatrick & Lockhart)	
	James C. Stalder (PricewaterhouseCoopers)	
	Andrew E. Thurman, Esq.	
	W. P. Snyder III	

* Via Telephone Conference

I. Opening of Meeting

The meeting was called to order by J. David Barnes, Chairman. Andrew E. Thurman, Esq. maintained the minutes. The Chairman declared that a quorum was present and the meeting was competent to proceed.

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FINANCE AND AUDIT COMMITTEE

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II. Additions to the Agenda

Mr. Barnes noted that there were no additions to the agenda.

III. Approval Items

A. Minutes from AHERF Finance and Audit Committee Meeting Held on August 27, 1998

Mr. Barnes noted that the minutes were presented for review by the Trustees and approval would be deferred until the next meeting.

B. Minutes from the AHERF Finance and Audit Committee Meeting Held on September 1, 1998

Mr. Barnes noted that the minutes were presented for review by the Trustees and approval would be deferred until the next meeting.

IV. Information and Discussion Items

A. Report from PricewaterhouseCoopers Regarding Fiscal Year 1997 Audited Financial Statements and Related Matters

Mr. Barnes began the discussion with introductory comments regarding discussion items for the meeting, as follows:

- Restatement of the Fiscal Year 1997 financial statements, making possible the A-133 filing requirements
- Discussion of the AHERF relationship with PricewaterhouseCoopers
- Review of events that led to the present situation

Charles Queenan provided the framework for the discussions with PricewaterhouseCoopers ("PWC"), noting that discussions would be held with PWC and its attorneys in order that appropriate legal advice could be given to

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Allegheny Health, Education and Research Foundation ("AHERF") by Mr. Powar and to individual AHERF trustees by Kirkpatrick & Lockhart. He further noted that questions to AHERF legal counsel should be addressed during Executive Session. Two specific points were noted in regard to PWC: (1) the firm is possibly a target of the Securities & Exchange Commission (SEC) and possibly of civil litigation, which puts them in a conflicted situation, and they would have difficulty issuing a "clean" accounting report, and (2) if they have found improprieties, they would have a difficult time relying on any certifications AHERF personnel gave them. If they have any impropriety, they have an obligation to report it to AHERF.

The representatives of PWC joined the meeting and were introduced to those present.

A-133 Filing Requirements

Mr. Barnes noted that discussions with PWC in the September 1 meeting emphasized the reissuance of the Fiscal Year 1997 financial statements in order that the A-133 filing requirements could be fulfilled. Although it was hoped that this could be concluded within one month's time, AHERF personnel have been concentrating on matters relating to the sale of the Philadelphia hospitals and the report has not yet been concluded. James Stalder noted that PWC has been working to resolve the issues originally introduced during the meeting of September 1.

Disclosure Requirements - SAS 82

Mr. Stalder discussed the disclosure requirements of SAS 82 and the obligation to advise the Committee of the latest findings. He then updated the Committee of the latest findings and thorough discussion followed.

Status of Restatement - Transfer of Reserves/Acquisition Accounting

Ben Korby commenced discussion regarding reserves established in connection with the Graduate acquisition of November 1996 as well as entries booked in April and June 1997. Thorough discussion followed.

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Status of Restatement - Rabbi Trusts

Mr. Korbly noted that trust assets (known as Rabbi Trusts) were established in connection with unqualified retirement accounts and executive benefits. In June 1997, there was no requirement to show the Rabbit Trusts on the balance sheet. A determination needs to be made as to whether the treatment of the Rabbi Trusts on the accounting statements were appropriate.

Status of Restatement - Endowment Funds

Mr. Korbly stated the matter of the Lockhart funds has been discussed and that a final legal opinion has not yet been received. Mr. Dionisio reported that the Committee reviewing this matter in the East has suspended their effort because they have not received funding approval to engage a law firm or accounting firm to review the matter, and that in the West, another Ad-Hoc Committee reviewing endowment funds has chosen a law firm and an accounting firm, and is in the initial stages of their review. A report will be issued on Western Region endowments funds, and the Lockhart funds in particular.

Status of Restatement - Intercompany Accounts

Mr. Korbly noted that intercompany accounts relates to supplementary financial data rather than consolidated financial statements. Mr. Stalder noted that there was no lack of integrity in this change and inasmuch as the bondholders knew of the matter, it was not an issue.

Status of Restatement - SDN Accounting

Mr. Korbly noted a review was made of the accounting in the SDN entity, and it would appear that SDN is a holding company for acquisitions which were made in a series of events. While there is a minimum amount of financial documentation, it is believed that the financial records are adequate. Mr. Korbly noted that while the SEC may decide to investigate SDN, PWC is satisfied with the transactions that were processed through SDN. Mr. Sanzo asked legal counsel whether the Finance and Audit Committee or any current officers of the corporation have management responsibility for SDN. Mr. Thurman replied that

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the exact answer will require a further review, however, based on the review made at this time, the board of AHERF, or its officers or management have no responsibilities toward SDN.

Path Going Forward/Issues

Mr. Barnes noted that PWC has spent a lot of time reviewing events that led to the issuing of the Fiscal Year 1997 financial statements, and that further investigation was necessary. Mr. Queenan discussed the parameters of such an investigation, and noted the investigation should be conducted by counsel to AHERF.

Executive Session

The offer of Executive Session was made to the representative of PricewaterhouseCoopers, and the offer was declined.

The offer of Executive Session was made to management, and the offer was accepted. The representatives of PricewaterhouseCoopers were excused from the meeting.

V. Adjournment

There being no further business, the meeting was adjourned at 2:55 p.m. as the Executive Session began.

Respectfully submitted,


Andrew E. Thurman, Esq.

AET:cur

NOTED ATTACHMENTS: Notice of Meeting

TAB 242

In The Matter Of:

*AHERF v.
PRICEWATERHOUSE*

THOMAS O'BRIEN

October 16, 2003

LEGALINK MANHATTAN
*420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171*

O'BRIEN, THOMAS



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1 the board? 2 A Yes. 3 Q And I think you've told us that although you 4 can't recall specifically, maybe, the date or 5 the time of reviewing Exhibit 1661 and 1653 6 which contain the audited financial statements 7 for 1996 and 1997, you do believe that you 8 reviewed them when you received them? 9 A Yes. 10 MR. FRIESEN: Wait. Objection. 1653 11 contains -- 12 MR. SHAPIRA: A draft. 13 MR. FRIESEN: -- a draft of the -- 14 MR. JONES: I understand. I'll 15 change that. 16 BY MR. JONES: 17 Q You do recall that you received the audited 18 financial statements for fiscal year 1996 and 19 fiscal year 1997? 20 A As I said, I recall that I did. I can't say 21 that I recall that I did, other than I know 22 that if they were in the packet, I looked at 23 them. 24 Q You don't have any doubt that you got them, is 25 that fair to say?	1 period they chose to report on 2 Q Did you at the time you received those clean 3 opinions believe them to be important to the 4 enterprise? 5 A Well, it was one of the most important things. 6 I mean, when you're on a board like that, you 7 look at a third-party provider of financial 8 information, in this case audited information, 9 and that gives you great comfort that a third 10 party has reviewed the financial data and 11 opined that it fairly presents the condition 12 and represents the operations of the stated 13 period. 14 Q Did you consider the third-party aspect of this 15 review a check on internal financial 16 management? 17 MR. FRIESEN: Objection. 18 A Well, as in any full audit, they clearly review 19 certain of the internal controls. There's no 20 question about that. 21 Q And in your everyday job, you knew -- or as a 22 consequence of your experience in your everyday 23 job, you knew that audited financial statements 24 were reviewed by people outside the 25 organization itself as well, is that fair to
1 A Yes. I'd say that's a legitimate statement. 2 Q Okay. And it was your practice, and you don't 3 have any reason to believe you varied from it, 4 to review the audited financial statements when 5 you received them? 6 A That's correct. 7 Q And I understand that Exhibit 1653, for reasons 8 stated in the package, was a draft set of the 9 audited 1997 financial statements, but you 10 don't have any reason today to doubt that you 11 would have reviewed that draft when it was 12 forwarded to you? 13 A If it was forwarded to me, I'm sure I did. 14 Q And when you received those financial 15 statements and, in both instances, ultimately 16 the clean opinions the audit report contained 17 within them, what did you understand that to 18 mean? 19 A It means, as any clean opinion does, that, to 20 the best of their ability, the auditors have 21 reviewed the financial data for the period so 22 stated, reviewed the internal controls and the 23 integrity of them, and that, in their opinion, 24 those statements fairly present the financial 25 condition and the financial results of whatever	1 say? 2 A I'm not sure I follow what you mean. 3 Q That -- I think what I mean to say is that when 4 you were a member of the AHERF board, you 5 understood that the audited financial 6 statements that you received and reviewed were 7 also made available to parties outside of 8 AHERF, for instance, creditors? 9 A Oh, certainly. Yes. 10 Q And that they reviewed and relied upon those 11 statements as well? 12 A And bond agencies and, you know, investment 13 bankers and so forth and so on. 14 Q And those various parties you knew to receive 15 and review those financial statements and rely 16 upon them at the time they received them? 17 A Certainly. 18 Q So that the audited financial statements were 19 important internally for management purposes 20 and externally to others, at least as you 21 understood it at the time? 22 A That's correct. 23 Q Did you use the audited financial statements 24 that you reviewed for fiscal year 1996 and 25 fiscal year 1997 -- and for the latter, either
22 (Pages 85 to 88)	

<p style="text-align: right;">Page 89</p> <p>1 in draft or final form -- to help you gauge the 2 performance of the enterprise?</p> <p>3 A. Yes I'd say that's a legitimate question, 4 particularly the fiscal year 1997, seeing that 5 they were cash flowing at a meaningful rate 6 during that previous 12 months.</p> <p>7 Q. Let me ask you to flip quickly back to the 1996 8 audited financial statements, and page 3 at the 9 bottom of those which you'll find at Exhibit 10 1661</p> <p>11 MR. SHAPIRA: What's the page number?</p> <p>12 MR. JONES: I'm sorry.</p> <p>13 THE WITNESS: 1661</p> <p>14 MR. JONES: It's Exhibit 1661, page 3 15 at the bottom of the page</p> <p>16 BY MR. JONES:</p> <p>17 Q. That page presents the Consolidated Statement 18 of Operations, is that right?</p> <p>19 A. I have 1661 here which is also page 55</p> <p>20 Q. No. I'm sorry. It was Exhibit 1661.</p> <p>21 MR. SHAPIRA: You want him to look at 22 page 2, right?</p> <p>23 MR. JONES: Page 3, the Statement of 24 Operations.</p> <p>25 MR. SHAPIRA: Right at the beginning</p>	<p style="text-align: right;">Page 91</p> <p>1 was a little over \$20 million, is that fair to 2 say?</p> <p>3 A. That's correct</p> <p>4 Q. So the trend is up at least at year end -- 5 fiscal year end 1997?</p> <p>6 MR. FRIESEN: Objection</p> <p>7 A. That's correct.</p> <p>8 Q. When seeing these financial statements and 9 seeing the trend we just discussed, you used 10 the information in the statements to help you 11 gauge the financial performance of the 12 enterprise and the financial ability of 13 management to run the enterprise too, is that 14 fair to say?</p> <p>15 A. That's correct. Yes. Um-hum.</p> <p>16 Q. You also, I think, testified that you recalled 17 receiving at least quarterly internal financial 18 statements, is that right?</p> <p>19 A. To the best of my recollection, we got those. 20 There were interim statements Quarterly, I 21 presumed, but there were interim statements, 22 most of which, as I say, I received and then 23 also got updates at the AUMC meetings.</p> <p>24 Q. And do you recall ever receiving a quarterly 25 internal financial statement -- strike that.</p>
<p style="text-align: right;">Page 90</p> <p>1 THE WITNESS: Right at the beginning.</p> <p>2 MR. SHAPIRA: Right.</p> <p>3 BY MR. JONES:</p> <p>4 Q. And I think in response to questions by 5 Mr. Friesen, you indicated that you did look at 6 net income as a part of your review of the 7 financial statements, am I right?</p> <p>8 A. Um-hum.</p> <p>9 Q. Is that a yes?</p> <p>10 A. Let me -- I was reading. I didn't hear you.</p> <p>11 Q. I'm sorry. I think in response to questions 12 from Mr. Friesen, you said you paid particular 13 attention to the statement of operations and 14 the net income line, is that correct?</p> <p>15 A. Yeah. One of the things, yeah.</p> <p>16 Q. And here we see the net income line has a 17 figure of what? Before extraordinary item and 18 change in accounting principle, the figure is 19 six-and-a-half million dollars, roughly?</p> <p>20 A. That's correct.</p> <p>21 Q. And so in 1996, the audited financial 22 statements reflected net income before 23 extraordinary item and change in accounting 24 principle of \$6.5 million, and I think that the 25 figure in 1997 you and Mr. Friesen discussed</p>	<p style="text-align: right;">Page 92</p> <p>1 Do you recall ever receiving an 2 audited financial statement that caused you to 3 question the accuracy of an internal financial 4 statement?</p> <p>5 A. I don't believe so</p> <p>6 Q. Did you use the audited financial statements as 7 a part of the tools available to you to monitor 8 performance of particular initiatives at AHERF, 9 for instance, the acquisition strategies that 10 we discussed earlier today?</p> <p>11 A. Well, I would say this: I would say that we 12 weren't divorced from the realities that 13 certain things were losing money and that there 14 were negative trends in certain things, but 15 when you looked at the audited financials and 16 saw that they were still cash flowing in a 17 meaningful way, that gave you comfort that 18 while things weren't wonderful, they were 19 clearly still operationally solid</p> <p>20 THE VIDEOGRAPHER: Excuse me. I have 21 to change tapes. We are now going off the 22 record. The time is 12:38 p.m.</p> <p>23 -----</p> <p>24 (There was a recess in the proceedings.)</p> <p>25 -----</p>

<p style="text-align: right;">Page 93</p> <p>1 THE VIDEOGRAPHER: We are now going 2 back on the record. The time is 12:39 p.m. 3 BY MR. JONES: 4 Q We're back on the record after a brief break, 5 Mr. O'Brien. 6 When you were a member of the AHERF 7 board, did you expect Coopers & Lybrand to 8 raise, either with the audit committee or with 9 the board itself, any material misstatements in 10 the financial statements presented for their 11 audit that they became aware of? 12 MR. FRIESEN: Objection. 13 A Well, I would say, again, generically, in any 14 board, I would expect the auditor to raise 15 those kinds of issues probably through the 16 audit committee, and then up to the full board. 17 Q Would you also expect Coopers & Lybrand during 18 this time period to have raised with the audit 19 committee or ultimately the full board any 20 intentionally misstatements they found in the 21 statements presented for their audit? 22 MR. FRIESEN: Objection. 23 A Without question. 24 Q Would you also expect Coopers & Lybrand, and 25 did you while you were a member of the board,</p>	<p style="text-align: right;">Page 95</p> <p>1 fiscal year 1996 or 1997 financial statements 2 presented for their audit were indeed 3 materially misstated and that they were, 4 therefore, going to issue an adverse opinion on 5 those statements, would that have caused you 6 concern? 7 MR. FRIESEN: Objection. 8 A Well, clearly. 9 Q And for the jury, why is that such a concerning 10 thing? 11 MR. FRIESEN: Objection. 12 A Well, you're obviously looking as, again, a 13 member of the board or any other constituency 14 where these things are used. You're looking to 15 make sure that they are high integrity, and you 16 base judgments on performance and risk, all 17 those things. 18 Q What kind of options does a board member and a 19 board have when faced with these kinds of 20 circumstances? 21 MR. FRIESEN: Objection. 22 A With what kinds of circumstances? 23 Q When an auditor comes to the board or the audit 24 committee and tells them that the financial 25 statements presented for their audit were</p>
<p style="text-align: right;">Page 94</p> <p>1 to raise with the audit committee or the full 2 board any concerns that Coopers & Lybrand had 3 with the integrity or competence of financial 4 management? 5 MR. FRIESEN: Objection. 6 A Absolutely. 7 Q Why is that so important? 8 A Well, I think it's, again, just <i>prima facie</i>. 9 You know, it's obvious that's what the board 10 hires outside auditors to do is, you know, 11 fundamentally report on the integrity of the 12 financial data which includes the integrity of 13 the management that's preparing them. 14 Q Did you -- strike that. 15 Before the bankruptcy was 16 announced -- and I think we talked a little bit 17 about the fact that you learned about it 18 through means you don't recall, but it must 19 have been at or about the time of the 20 bankruptcy. When you learned of it, and at any 21 time before it, did you have any reason to 22 question the accuracy of the audited financial 23 statements presented to you? 24 A No. Really, no. None. 25 Q If Coopers & Lybrand had told you that the</p>	<p style="text-align: right;">Page 96</p> <p>1 indeed materially misstated and an adverse 2 opinion is to be issued? 3 MR. FRIESEN: Objection. Vague. 4 A Well, I mean, speaking again on a generic 5 basis, you would clearly -- the audit committee 6 would clearly probably establish or the board 7 would establish a special committee to review 8 those allegations and determine whether they 9 are correct or not and would get to the bottom 10 of whether or not they are, in fact, correct. 11 Q So you have the option of making inquiry? 12 A Certainly. 13 Q And indeed you also have the option of 14 recharging the auditors to expand their 15 procedures and scope, perhaps? 16 MR. FRIESEN: Objection. 17 A I mean, all of that would come from this 18 special committee or whatever you would set up 19 to look into those allegations by the auditor. 20 Q Is engagement of additional consultants a part 21 of the options that committee would have? 22 MR. FRIESEN: Objection. 23 A There would be all kinds of different options, 24 but that -- it would be a full inquiry into the 25 allegations. That's all I would say.</p>

TAB 243

**IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF PENNSYLVANIA**

THE OFFICIAL COMMITTEE OF
UNSECURED CREDITORS OF
ALLEGHENY HEALTH, EDUCATION
AND RESEARCH FOUNDATION

Plaintiff,

Civil Action No. 00-684

v.

PRICEWATERHOUSECOOPERS, LLP

Defendants.

EXPERT REPORT OF J. W. TILLETT, JR.

NOVEMBER 12, 2004



J. W. Tillett, Jr.

In connection with my work on this assignment, I have reviewed and/or considered the following:

- C&L working papers (including CLASS files and materials from certain desk files) related to the performance of the audit of the consolidated financial statements of AHERF for the year ended June 30, 1997
- C&L working papers (including CLASS files and materials from certain desk files) related to the performance of the audits of the financial statements of AHERF and its affiliates for the year ended June 30, 1996
- Various C&L working papers related to the performance of the audits of the financial statements of AHERF and its affiliates for the year ended June 30, 1995
- Fiscal years 1992 – 1997 AHERF audited consolidated financial statements and the financial statements of its affiliates
- Various pleadings and written discovery documents
- Depositions and related exhibits in this matter
- Deposition of Amy Frazier in the matter of the Securities Exchange Commission v. William F. Buettner, Mark D. Kirstein and Amy S. Frazier
- 1998 Not-For-Profit Health Care Medians, Moody's Investors Service, August 1998
- Copies of audited financial statements of certain Pennsylvania health care entities for the years 1996 and 1997, collectively "The Pennsylvania Data"⁷
- Copies of audited financial statements of various for-profit health care entities for the years ended 1996 and 1997.
- Technical Reference Materials, relevant at the time, including the following:
 - AICPA Professional Standards, Volumes 1 and 2, various editions
 - FASB Current Text, Volumes I and II, various editions
 - FASB Original Pronouncements, Volumes I and II, various editions
 - AICPA Audit and Accounting Guide, Health Care Organizations, various editions
 - AICPA, Audit Risk Alerts, Health Care Industry Developments
 - AICPA Audit and Accounting Guide, Not-For-Profit Organizations
 - AICPA, Consulting Services Special Report 03-1, Litigation Services and Applicable Professional Standards
 - AICPA Technical Practice Aids and Statement of Positions
 - FASB EITF Abstracts, various editions
 - 1997 SEC Guidelines, Rules and Regulations, (Warren, Gorham & Lamont)
 - Accounting for Business Combinations, Interpretations of APB Opinion Nos. 16 and 17, Eighth Edition
 - Montgomery's Auditing, Eleventh and Twelfth editions
- Expert Reports of Mr. Berliner dated September 3, 2004 and Mr. Regan dated September 2, 2004 and documents and materials referenced within

⁷ Listing of Pennsylvania Hospitals considered [Tab 7].

- 1996 C&L Business Assurance Manual
- Various speeches by staff members of the Securities Exchange Commission

V. Background

AHERF, as the parent company, was composed primarily of not-for-profit related entities. For external reasons regarding debt, many of these entities were structured as obligated groups. Pursuant to a letter of arrangement dated April 12, 1996, C&L was engaged to perform audits of the consolidated financial statements of AHERF and the financial statements of various subsidiaries as of and for the year ended June 30, 1996. The subsidiaries included Allegheny General Hospital Obligated Group (AGHOG) and the Delaware Valley Obligated Group (DVOG).

C&L was engaged to perform an audit of the consolidated financial statements of AHERF as of and for the year ended June 30, 1997 pursuant to a letter of arrangement dated April 25, 1997. It should be noted, C&L was not engaged to perform audits of the financial statements of any of the obligated groups as of and for the fiscal year ended June 30, 1997.

For both 1996 and 1997, C&L's engagement teams were comprised of numerous accounting professionals (many of whom were licensed Certified Public Accountants) who participated in planning and performing the audits in accordance with GAAS. The team for each year worked on the audit engagement for many months making inquiries of AHERF management, and analyzed thousands of pages of financial information provided by AHERF management and others in order to prepare its audit workpapers and reach its opinions on the financial statements they were engaged to audit. In addition, the team consulted with other C&L partners and professionals who were considered specialists in various health care and accounting matters to assist them in addressing many of the very complex and technical accounting matters.

VI. Summary of Opinions

A. Fiscal Years 1996 and 1997 Financial Statements Audits

A.1 C&L planned and performed their audits of the fiscal year 1996 financial statements in accordance with GAAS for the following entities:

- the consolidated financial statements of AHERF,
- the consolidated financial statements of AGHOG,
- the combined financial statements of DVOG, and
- the financial statements of Allegheny Integrated Health Group (AIHG)

C&L's performance under these standards provided a reasonable basis for their opinions that the financial statements were fairly presented, in all material respects, in conformity with GAAP.

A.2 C&L planned and performed their audit of the fiscal year 1997 consolidated financial statements in accordance with GAAS. C&L's performance under these standards provided a reasonable basis for their opinion that the AHERF financial statements were fairly presented, in all material respects, in conformity with GAAP.

A.3 In my opinion, AHERF management failed to meet its obligation to C&L as set forth in the AICPA professional standards and in the letters of arrangement in connection with C&L's fiscal year 1996 and 1997 audits of the financial statements. As a result, C&L was precluded in its ability to detect material misstatements in connection with its audits.

A.4 C&L's consideration of materiality relative to unrestricted net assets, total net assets and the impact on debt covenants was appropriate. Furthermore, I believe the opinions expressed by Mr. Berliner and Mr. Regan on materiality judgments would be relevant for for-profit healthcare systems, but are not appropriate for materiality judgments for not-for-profit healthcare systems.

A.5 C&L's evaluations of the Summary of Unadjusted Differences (SUD) for each of the fiscal years 1995, 1996 and 1997 were reasonable and in accordance with GAAS.

A.6 C&L's communications with the Audit Committee and/or Board of Trustees was appropriate and in accordance with GAAS.

F. Debt

F.1 C&L's audit procedures with respect to debt were performed in accordance with GAAS and together with other audit procedures, provided a reasonable basis for their conclusion that debt was presented, in all material respects, in accordance with GAAP, in relation to the financial statements taken as a whole. Furthermore, C&L complied with GAAS in connection with the special reports issued giving negative assurance relative to compliance with certain debt covenants.

G. Miscellaneous Allegations

G.1 I disagree with Messrs. Berliner and Regan that C&L violated GAAS by failing to require AHERF to correct various GAAP violations and that these violations caused material misstatements to the financial statements being audited.

VII. Bases for Opinions

A.1 C&L planned and performed their audits of the fiscal year 1996 financial statements in accordance with GAAS for the following entities:

- the consolidated financial statements of AHERF,
- the consolidated financial statements of AGHOG,
- the combined financial statements of DVOG, and
- the financial statements of AIHG

C&L's performance under these standards provided a reasonable basis for their opinions that the financial statements were fairly presented, in all material respects, in conformity with GAAP.

A.2 C&L planned and performed their audit of the fiscal year 1997 consolidated financial statements in accordance with GAAS. C&L's performance under these standards provided a reasonable basis for their opinion that the AHERF financial statements were fairly presented, in all material respects, in conformity with GAAP.

Introduction

Before I begin addressing the specific issues in this report, it is important that I provide a framework for many of the concepts that I will discuss. Therefore, in the following paragraphs, I will provide some explanations from GAAS and other professional literature about the objectives of an audit and provide some background about the audit process. In addition, I will explain the purpose and scope the reports of independent accountants on audited financial statements, sometimes referred to as the auditor's opinion. Later in this report, I will explain the meaning and intent of the Report of Independent Accountants on consolidating and combining information that accountants may provide to report on supplemental information when it accompanies the audited financial statements. Also, throughout this report, I will explain why it is my opinion that C&L met their professional obligations under GAAS in planning and performing their audits of AHERF's consolidated financial statements as of and for the years ended June 30, 1996 and 1997 and of the audits of the financial statements for AGHOG, DVOG, and AIHG for the year ended June 30, 1996. In addition, I will discuss my bases for reaching these opinions and I will respond to the various allegations made by Mr. Berliner and Mr. Regan.

For fiscal years 1996 and 1997 C&L conducted their audits of the respective financial statements in accordance with GAAS. Their audits were conducted by a team of qualified professionals who planned and performed their procedures with due care and exhibited an independence in mental attitude. C&L's planning procedures appropriately included obtaining an understanding of the controls relevant to their audit of the financial statements. After obtaining this understanding C&L judgmentally determined which controls it would test and rely on in the performance of its audit. Taking into

consideration these procedures, C&L performed its risk assessment, which determined the nature, timing and extent of the procedures performed. In performing these procedures, C&L obtained sufficient competent evidential matter that provided a reasonable basis for their opinions. As explained throughout this report, C&L audit team members obtained and assessed considerable information and documented their work and findings. Based on my review of the workpapers and reading depositions of C&L audit team members, I believe they demonstrated their expertise in accounting and auditing matters, their experience in the healthcare industry and their expertise in dealing with complex issues that were significant to AHERF.

Objective of an Audit

The purpose of an audit and the level of assurance provided by an auditor's opinion are often misunderstood. The objective of an audit of financial statements is the expression of an opinion on the fairness with which they present, in all material respects, financial position, results of operations, and cash flows in conformity with GAAP.⁸ Since an audit opinion on financial statements is based on the concept of reasonable assurance, an audit is not intended to insure and an audit report does not constitute a guarantee.⁹ In other words, an unqualified audit opinion does not provide assurance as to the financial health or future earnings of an entity. It provides only reasonable assurance on the fairness of the presentation of the financial statements in accordance with GAAP, in all material respects, and does not insure or guarantee sound financial condition, currently or in the future.

Definition of an Audit

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Audit procedures are performed to obtain the competent evidential matter required to provide the auditor a reasonable basis for an opinion on financial statements. These procedures include: inspection, observation, inquiries, confirmations, and analytical procedures. An audit also includes assessing the accounting principles used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

An audit provides only reasonable assurance, and does not guarantee that all misstatements related to errors or irregularities will be detected because of such factors as (a) the use of professional judgment throughout the audit process, (b) the need for auditors to work within economic limits, (c) the use of selective testing in designing and performing audit procedures, (d) the inherent limitations of internal control, and (e) the fact that much of the evidence available to the auditor is persuasive rather than convincing in nature.

⁸ June 1, 1997 AICPA Professional Standards, Volume 1, AU 110.01.

⁹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 316A.08.

During an audit, management makes many representations to the auditor, both written and oral, in response to specific inquiries or through the financial statements.¹⁰ These representations are integral to conducting an audit and obtaining sufficient competent evidential matter. At the end of an audit, the auditor obtains written representations from management to complement and corroborate his audit procedures.

An audit of financial statements is typically conducted utilizing a team of qualified professionals comprised of associates, senior(s), manager(s) and partner(s). Audit teams are organized in a somewhat hierarchical manner. The nature of the team is dependent upon a number of factors, including the size and complexity of the audit client. The work performed is reviewed to determine whether it was adequately performed and to evaluate whether the results are consistent with the conclusions in the auditor's report.¹¹ The level of review and supervision depends on many factors, including the complexity of the subject matter, the qualifications of the persons performing the work and the judgment of the engagement team.¹²

As noted above, an auditor typically works within economic limits. As a result, the auditor's opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. The auditor must decide, again exercising professional judgment, whether the evidential matter available to him within the limits of time and cost is sufficient to justify expression of an opinion.¹³ In other words, an audit is never performed with unlimited resources.

The auditor should prepare and maintain working papers, the form and content of which should be designed to meet the circumstances of a particular engagement. The information contained in working papers constitutes the principal record of the work that the auditor has done and the conclusions that he has reached concerning significant matters. The nature and type of workpapers that are maintained are subject to the auditor's judgment, and the auditor is not precluded from supporting his report by other means in addition to working papers.¹⁴ Workpapers are records kept by the auditor of the procedures applied and tests performed and can include things such as company documents, analyses or schedules obtained or prepared by the auditor.¹⁵

¹⁰ June 1, 1997 AICPA Professional Standards, Volume 1, AU 333.02.

¹¹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 311.13.

¹² June 1, 1997 AICPA Professional Standards, Volume 1, AU 311.11.

¹³ June 1, 1997 AICPA Professional Standards, Volume 1, AU 326.23.

¹⁴ June 1, 1997 AICPA Professional Standards, Volume 1, AU 339.01, footnote 3.

¹⁵ June 1, 1997 AICPA Professional Standards, Volume 1, AU 339.03.

Generally Accepted Auditing Standards

Statements on Auditing Standards are issued by the Auditing Standards Board, the senior technical body of the American Institute of Certified Public Accountants designated to issue pronouncements on auditing matters. These standards, referred to as GAAS, establish the quality of performance and the overall objectives to be achieved by the auditor in a financial statement audit. In the observance of GAAS, the auditor must exercise his judgment in determining which auditing procedures are necessary in the circumstances to afford a reasonable basis for the audit opinion. His judgment is required to be the informed judgment of a qualified professional person.¹⁶

Generally Accepted Accounting Principles

GAAP is a technical accounting term that encompasses the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules, and procedures provide a standard by which to measure financial presentations.¹⁷

The auditor's opinion that financial statements present fairly, in all material respects, an entity's financial position, results of operations, and cash flows in conformity with GAAP should be based on his judgment as to whether:

- the accounting principles selected and applied have general acceptance;
- the accounting principles are appropriate in the circumstances;
- the financial statements, including the related notes, are informative of matters that may affect their use, understanding, and interpretation;
- the information presented in the financial statements is classified and summarized in a reasonable manner, that is, neither too detailed nor too condensed; and,
- the financial statements reflect the underlying transactions and events in a manner that presents the financial position, results of operations, and cash flows stated within a range of acceptable limits, that is, limits that are reasonable and practicable to attain in financial statements.¹⁸

Audit Risk

Audit risk is the risk that the auditor may unknowingly fail to appropriately modify his opinion on financial statements that are materially misstated.¹⁹ The consideration of audit risk has an important bearing on the nature of the audit.²⁰ This risk is recognized by the

¹⁶ June 1, 1997 AICPA Professional Standards, Volume 1, AU 110.04.

¹⁷ June 1, 1997 AICPA Professional Standards, Volume 1, AU 411.02.

¹⁸ June 1, 1997 AICPA Professional Standards, Volume 1, AU 411.04.

¹⁹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 312.02.

²⁰ June 1, 1997 AICPA Professional Standards, Volume 1, AU 150.05.

statement in the standard audit report that the auditor obtained "reasonable assurance" about whether the financial statements are free from material misstatement.²¹

In the course of preparing financial statements, management must make accounting estimates that affect the amounts reported in the financial statements. The risk of material misstatement of accounting estimates normally varies with the complexity and subjectivity associated with the process, the availability and reliability of relevant data, the number and significance of assumptions that are made, and the degree of uncertainty associated with the assumptions.²²

Accounting Estimates

Estimates used in accounting are necessary consequences of periodic presentations of financial statements and, as a result, preparing financial statements requires estimating the effects of future events.²³ Examples of items which are considered to be estimates are uncollectible receivables, inventory that is obsolete, and the service life of depreciable assets. In assessing an accounting estimate, the auditor is responsible for evaluating the reasonableness of the estimate made by management in the context of the financial statements taken as a whole.²⁴ In evaluating the reasonableness of an estimate, the auditor normally concentrates on key factors and assumptions that are (a) significant to the accounting estimate, (b) sensitive to variations, (c) deviations from historical patterns, and (d) subjective and susceptible to misstatement and bias. The auditor normally should consider the historical experience of the entity in making past estimates as well as the auditor's experience in the industry.²⁵ Further, the auditor obtains an understanding of how management developed the estimate and uses one or a combination of the following approaches to evaluate management's estimates:

- Review and test the process used by management to develop the estimate.
- Develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate.
- Review subsequent events or transactions occurring prior to completion of field work.²⁶

Since no one accounting estimate can be considered accurate with certainty, the auditor recognizes that a difference between an estimated amount best supported by the audit evidence and the estimated amount included in the financial statements may be reasonable, and such difference would not be considered to be a likely misstatement.²⁷ In other words, an accounting estimate is correct as long as it is within a reasonable range.

²¹ June 1, 1997 AICPA Professional Standards, Volume 1, AU 312.02.

²² June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.05.

²³ APB 20, paragraph 10.

²⁴ June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.04.

²⁵ June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.09.

²⁶ June 1, 1997 AICPA Professional Standards, Volume 1, AU 342.10.

²⁷ June 1, 1997 AICPA Professional Standards, Volume 1, AU 312.29.

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In The Matter Of:

In Re: AHERF

Charles Queenan, Jr.

Vol. 1, June 12, 2001

*Morse, Gantverg & Hodge, Inc.
719 One Bigelow Square
Pittsburgh, PA USA 15219
(412) 281-0189*

*Original File queenan.txt, 278 Pages
Min-U-Script® File ID: 1904231292*

Word Index included with this Min-U-Script®

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[1] accounted for a variety of things in a proper fashion.
[2] And why the surprise.
[3] And if there were errors, irregularities,
[4] who was responsible for the accounting entries or
[5] under whose direction were they made.
[6] And if I may continue to understand what I
[7] just said, I assume you all do, you have to know the
[8] difference between an error and an irregularity.
[9] These were developed back in statement and
[10] auditing standards 16 I think drafted by a former
[11] Pittsburgher by the name of Ken Johnson.
[12] An error is an unintentional mistake.
[13] An irregularity is a purposeful
[14] falsification.
[15] Q: In terms of what is stated in Exhibit
[16] 1716A, besides Mr. Barnes and Mr. Abdelhak, did you
[17] discuss a net loss in operating results or any
[18] shortfall with anyone else at AHERF?
[19] A: I discussed the reasons for both the net
[20] losses and the pending writeoffs with those two
[21] gentlemen, but also with Mr. Adamczak and
[22] Mr. Dionisio, and in part with Ms. Wynstra.
[23] Q: Did you become aware that the information
[24] that we have been referring to in Exhibit 1716A was
[25] discussed at the March 11, '98 finance and audit

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[1] committee meeting?
[2] A: Only by reading the minutes.
[3] Q: And is it your understanding by reading the
[4] minutes that that was something discussed at the
[5] meeting?
[6] A: It so states.
[7] Q: Did you speak to anyone else that is
[8] indicated as present at this meeting besides the ones
[9] we just discussed regarding a net loss of 71.8 million
[10] or a shortfall of 57 million?
[11] A: Not to my recollection.
[12] Q: If you could look at Exhibit 1712A.
[13] A: I have it.
[14] Q: Can you identify that document?
[15] A: I can.
[16] This is a document that had been given to
[17] me by Mr. Adamczak.
[18] Q: Do you recall when it was given to you?
[19] A: I think in the early May period of 1998.
[20] Q: When was your meeting with Mr. Barnes and
[21] Mr. Abdelhak we just discussed?
[22] A: In the latter part of April of 1998.
[23] Q: What was the occasion for you receiving
[24] this document from Mr. Adamczak?
[25] A: I had asked Mr. Adamczak about a number of

[1] accounting issues dealing with both the accounts
[2] receivable, the intercompany payable balances, the
[3] method of utilizing purchase accounting and the
[4] acquisition of the hospitals over in the eastern part
[5] of the Commonwealth of Pennsylvania.
[6] And as well as I said intercompany entries
[7] with respect to reserves and balances.
[8] And this was given to me I believe in
[9] response to that inquiry.
[10] Q: Do you know whether Mr. Adamczak had
[11] prepared this memorandum prior to your inquiry?
[12] A: I don't know.
[13] Because I forget just - I can't pin down
[14] the date that I asked him.
[15] Q: Do you remember him saying, "I will send
[16] you a memo on that" or "I will prepare a memo"?
[17] A: I don't recall.
[18] It could have been derived.
[19] I was asking these same things of
[20] Mr. Abdelhak. And during my meeting with him and
[21] Mr. Barnes to provide more detail, it could have been
[22] that Mr. Abdelhak asked Adamczak to do that.
[23] And then I got it as a result thereof.
[24] Or it could have been where I asked him. I
[25] don't remember.

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[1] Q: I will refer you to the second full
[2] paragraph. "During the latter part of fiscal year
[3] 1997 approximately 99.6 million of reserves
[4] established as part of the Graduate acquisition and
[5] subsequently determined to be cushion from a Graduate
[6] perspective were transferred from the Graduate
[7] entities to other DV entities."
[8] Were you aware of that 99 million dollar
[9] reserve transfer?
[10] A: Through this memo I was.
[11] Q: But not at the time it occurred?
[12] A: Not at the time it occurred, no.
[13] Q: This memo was your first information about
[14] the 99 million dollar transfer?
[15] A: It was.
[16] Q: Do you know what is meant by the word
[17] "cushion" in that sentence?
[18] A: I don't know exactly what is meant by that.
[19] The disturbing part to me was how the
[20] reserves were established in connection with the
[21] purchase accounting of a particular hospital. If you
[22] understand purchase accounting, you know you take the
[23] purchase price and the liabilities, and you allocate
[24] that among the various assets.
[25] When you increase the liabilities by

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¶ putting a reserve on the right-hand side of the
§ balance sheet, that requires a corresponding entry on
¶ the other side.
¶ And that entry would be in the nature –
§ may be of goodwill, which would be written off over a
§ long time frame.
¶ How you are doing it with one hospital,
§ then transferring reserves that you establish for
§ whatever reason, where future liabilities attributable
¶ to that hospital, how you then took those reserves and
¶ transferred them to another hospital was an answer I
§ didn't know then and I don't know now.
¶ Q: Did you investigate the propriety of
¶ setting up those reserves at the Graduate originally?
§ A: I was in process of doing that.
¶ But it was incomplete.
¶ Q: What did you learn?
¶ A: I didn't learn very much.
¶ I kept on asking the question.
¶ But I wasn't getting good information. I
had a lot of material to review.
¶ I had planned on taking these up with the
§ outside accounting firm. Because it was my impression
¶ that they approved the purchase accounting.
§ So I had two issues.

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¶ Lybrand management letter report?"
¶ Those were the kind of inquiries I was
§ making over the time frame.
¶ Q: Coopers & Lybrand was the accounting firm
§ that you indicated you believed had approved the –
¶ A: They had given certified audited reports
¶ without qualification in 1997.
¶ And that was a time frame in which
¶ hospitals were acquired.
¶ So it would be very much a part of the
¶ nature of their audit to look at the way purchase
¶ accounting was utilized.
¶ How it was set up.
¶ And what supporting documentation the
§ entity had for setting up these reserves.
¶ Q: What did you learn about who was involved
¶ in the creation of the reserves?
¶ A: I never got an answer to that. So I didn't
learn anything as to who set them up or who authorized
them to be set up.
¶ Q: Did you learn anything about who
¶ transferred them or authorized them to be transferred?
¶ A: No.
¶ I had heard that it was done under the
¶ direction of Mr. McConnell, but I don't know whether

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¶ The first issue was the purchase accounting
¶ entries at the outset appropriate. And what kind of
§ valuations were made in terms of setting those up.
¶ And once you had them established for a
§ particular hospital how, even if you filed
§ consolidated financials, how could you write
¶ liabilities attributable to another hospital off
¶ reserves from another hospital, I don't know the
¶ answer to that. Nor do I know the answer to the
¶ propriety of the purchase accounting.
¶ Those were questions I was trying to scope
out the answer of the inquiry.
¶ Q: That fact was disturbing to you when you
learned of it in early May '98?
¶ A: Yes.
¶ Q: Who did you speak to about that issue?
¶ A: Remember I initially was in fact
gathering. I know in human nature I won't be able to
get much fact gathering, if I go out the initiative
with an accusatory tone.
¶ So I am not – one of the questions I asked
was "What information do we have on that? How was
this done? What is the background? Did the
accountants – was there any memorandums issued on the
subject? Was this commented on in the Coopers &

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¶ that was so or not so. Because I never had an
¶ opportunity to interview him nor to get corroboration.
¶ Q: Who did you hear that from?
¶ A: The inference I heard it from was
§ Mr. Abdelhak.
¶ Q: When did you hear that?
¶ A: I think my first meeting with Barnes and
§ Abdelhak.
¶ Q: Did Mr. Abdelhak express any concern about
¶ the propriety of the reserve transfer?
¶ A: I don't know that he expressed.
¶ He started to talk about reserves at that
meeting.
¶ I said, "How were they set up?"
¶ And I found after parsing through something
less than a clear coherent explanation, I got some
sense that it was set up incident to the purchase of
the hospitals.
¶ And then I got some sense that this would
cover all of the writeoffs from the various hospitals.
¶ I said, "How can you do that?"
¶ And I didn't get an answer.
¶ He said "McConnell must have done it" or
something to that effect. That was the inference I
got.

In Re: AHERF

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[1] To my recollection that is where I got it.
 [2] Whether that was picked up in later
 [3] conversations I had with Dionisio or Adamczak, I don't
 [4] recall.
 [5] Q: Did you discuss the Graduate reserve
 [6] transfers with anyone else besides Mr. McConnell?
 [7] A: Besides who?
 [8] Q: With anyone besides Mr. McConnell?
 [9] A: I never discussed it with Mr. McConnell.
 [10] Q: I am sorry, with Mr. Abdelhak.
 [11] A: I can't recall. I may have, as I just
 [12] said, with Dionisio or Adamczak. But I don't recall.
 [13] Q: Do you recall discussing the Graduate
 [14] reserve transfer with any trustees, AHERF trustees?
 [15] A: I don't.
 [16] Q: Where was the meeting that you had with
 [17] Mr. Barnes and Mr. Abdelhak in late April '98?
 [18] A: In a room in the Duquesne Club in
 [19] Pittsburgh.
 [20] MR. DORMAN: I didn't hear that.
 [21] A: A room in the Duquesne Club in Pittsburgh.
 [22] Q: Do you recall how long that meeting lasted?
 [23] A: I don't recall.
 [24] My impression is an hour and a half to two
 [25] hours.

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[1] Q: And there was no one else present besides
 [2] the three of you?
 [3] A: There was no one else present.
 [4] Q: And how was that meeting arranged?
 [5] A: It was arranged on a phone call that I had
 [6] the day before from Mr. Abdelhak saying that he and
 [7] Mr. Barnes wanted to meet with me on a matter related
 [8] to AHERF.
 [9] And could I arrange my schedule to come.
 [10] I think he called the day before.
 [11] Could I arrange my schedule to come the
 [12] following afternoon, I believe.
 [13] Q: Was there some urgency to his request?
 [14] A: To the extent he wanted to meet the next
 [15] day there was, yes.
 [16] Q: Do you know why that was?
 [17] A: I have no idea.
 [18] Q: Was Mr. Barnes - did Mr. Barnes
 [19] participate in that phone call?
 [20] A: No. Not to my recollection.
 [21] Q: Did Mr. Barnes participate in the meeting
 [22] in his capacity as chairman of the finance and audit
 [23] committee?
 [24] A: That was my impression.
 [25] Q: Do you know whether the finance and audit

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[1] committee was aware of any of the issues that
 [2] Mr. Barnes discussed with you at that meeting?
 [3] A: I do not.
 [4] Let me correct that.
 [5] You have given me minutes of a prior
 [6] meeting, which had some of these writeoffs reflected.
 [7] I did not know about that meeting at that
 [8] time.
 [9] So you can say when you ask the question
 [10] did the finance committee know about the writeoffs,
 [11] they knew to the extent reflected in those minutes.
 [12] Q: That you learned of in May of '98?
 [13] A: That I learned later. That's right.
 [14] Q: In May of '98?
 [15] A: In May of '98. When I got a copy of the
 [16] minutes.
 [17] Q: Do you have any specific recollection of
 [18] when you received that what you call the big chunk of
 [19] documents from Wynstra in early May '98?
 [20] A: I don't. It was some time in May. The
 [21] date I have no idea.
 [22] Q: Did you say early May?
 [23] A: I know I was asking in early May. Just
 [24] when I got them - because I know she had to collect
 [25] some of them.

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[1] But the exact dates which I got them, my
 [2] guess is probably reasonably early May, maybe the
 [3] second week or start of the second week.
 [4] But that is pure conjecture.
 [5] Q: If I could refer you to Exhibit 1713A.
 [6] Can you identify that document for me?
 [7] A: Yes.
 [8] This would be again one of the documents
 [9] that was given to me by Mr. Adamczak incident to the
 [10] inquiry I had been making.
 [11] Q: The previous exhibit we looked at, 1712A,
 [12] was dated May 1. This one is dated May 7.
 [13] A: That's correct.
 [14] Q: Are you aware of anything that led
 [15] Mr. Adamczak to prepare this memorandum?
 [16] A: I had met with him.
 [17] And I was asking questions about the
 [18] reserves, how they were established. And heard that
 [19] they had moved between entities.
 [20] And I was wondering how that was done and
 [21] under whose authority it was done.
 [22] And my sense was that this would be at
 [23] least in part responsive to that.
 [24] Q: Who was the first AHERF person that you met
 [25] with after your meeting with Mr. Barnes and

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¶ function and accounting function had been outsourced.
¶ This was background material he was saying,
¶ he was telling me about the reasons for a lot of the
¶ chargeoffs.
¶ And the reasons for the continual aging of
¶ the accounts receivable.
¶ Q: Do I understand you correctly to say that
¶ there was a bigger problem with chargeoffs or
¶ writeoffs in the east because they were less
¶ conservative than the west?
¶ A: That is what I was told.
¶ Q: What did you discuss about the Graduate
¶ reserves with Mr. Dionisio?
¶ A: I can't recall. Except I believe I asked
¶ him how they were established and how the reserves
¶ were transferred among entities.
¶ But I don't recall his answer.
¶ Q: You said inadvertent fax was sent. What
¶ was the inadvertent fax?
¶ A: The inadvertent fax was a fax sent I
¶ believe from the west to the eastern hospitals
¶ indicating that the accounts receivable function was
¶ to be consolidated.
¶ This at that time was not known to the
¶ personnel in the east.

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¶ Q: When was the timing of that fax?
¶ A: I have no idea.
¶ Q: Was it in '98, do you know?
¶ A: I don't know.
¶ I would guess it would have been before
¶ that.
¶ Q: Before 1998?
¶ A: That would be my conjecture. But I don't
¶ know that.
¶ Q: Was there any resulting discourse between
¶ east management and west management as a result of
¶ that issue?
¶ A: I suspect there was.
¶ But I am unaware of any particular
¶ discourse.
¶ There would have to be to consolidate
¶ things in Pittsburgh. "Send them here."
¶ Q: Are you aware of when they were
¶ consolidated?
¶ A: I am not aware.
¶ Q: Are you aware of whether they were
¶ consolidated?
¶ A: I am unaware.
¶ Q: Did you have any discussion regarding the
¶ Keysop plan or the loan program with Mr. Abdelhak or

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¶ Mr. Barnes at that initial meeting?
¶ A: No.
¶ Not that I recall.
¶ Q: Was that an issue that came up in your
¶ meetings with Mr. Dionisio or Adamczak?
¶ A: I don't recall they were.
¶ Q: Or Ms. Wynstra?
¶ A: I don't recall they were.
¶ Q: Were you aware at the time you were doing
¶ your investigation that there was Keysop distribution
¶ that was made in 1998 to certain executives?
¶ A: I was unaware of that at that time.
¶ Q: Did you become aware of it at some time
¶ during your work for AHERF?
¶ A: I may have later incident to the analysis
¶ of an appropriate termination of Mr. Abdelhak.
¶ Just when I learned about it, I am not
¶ quite sure.
¶ I think I learned about it - I am sure it
¶ was after May.
¶ I don't think I even heard the word
¶ "Keysop."
¶ Q: It was after Mr. Abdelhak's termination as
¶ best you recall?
¶ A: That is to the best of my recollection,

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¶ yes.
¶ Q: That was on June 5th, 1998?
¶ A: I think that was the date of the
¶ termination.
¶ I think there was a process that started
¶ before that leading up to a final decision to
¶ terminate and how one would go about approaching the
¶ resolution of appropriate severance arrangement for it.
¶ Q: What did you learn about the Keysop
¶ distributions that were made?
¶ A: I don't recall other than I think there was
¶ some memo indicating that some had been made earlier.
¶ But right now I have no recollection of it.
¶ I do recall the Keysop issue incident to an
¶ analysis of the severance arrangement for Mr. Abdelhak.
¶ Q: Was there any discussion or investigation
¶ in to the propriety of the Keysop distributions that
¶ were made in 1998?
¶ A: Not to my recollection.
¶ Q: When you learned of the Keysop
¶ distributions in or after June 1998, were you aware -
¶ A: What was the date of the Keysop
¶ distributions?
¶ Q: I don't have that in front of me right
¶ now. I am sorry.

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[1] Do you recall -

[2] A: There was, as you know, Keysop distribution
 [3] made much later incident to a payment of indebtedness
 [4] to Pittsburgh National Bank.

[5] Is that what you are talking about?

[6] Q: Yes.

[7] A: I didn't learn about that until soon before
 [8] it was made.

[9] Q: In the July '98 time frame?

[10] A: Yes.

[11] Much later.

[12] Close to when they were made.

[13] Q: Do you know how much - how much in
 [14] distributions there was done?

[15] A: I don't recall, no.

[16] But I do know they were used to pay off the
 [17] indebtedness to PNB.

[18] Q: What Keysop distribution that you learned
 [19] of in June of '98 were you referring to earlier?

[20] A: I had thought you were talking about the
 [21] way in which the Keysop had been set up -

[22] Q: For Mr. Abdelhak.

[23] A: For a group of employees.

[24] A group of officers.

[25] Money otherwise that were part of

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BY MR. SPITALENTO:

[1] Q: Upon the advice of your counsel,
 [2] Mr. Queenan, I am going to ask you generally what the
 [3] scope of the work that you performed for AHERF in 1998
 [4] was?

[5] A: Yes.

[6] I think it is best understood that it was
 [7] three discrete assignments.

[8] The first assignment, which was denominated
 [9] on our records as special project, started with the
 [10] meeting with Mr. Abdelhak and Mr. Barnes.

[11] And it looked in to an investigation of the
 [12] accounting entries used particular in '97 and early
 [13] '98.

[14] And whether those accounting entries were
 [15] appropriate or inappropriate.

[16] And the reason for that investigation, as I
 [17] understood it, was the surprise that came to
 [18] Mr. Barnes when he learned that the order of magnitude
 [19] of the writeoffs over and above those that had already
 [20] happened were in the 200 to 300 million dollar range.

[21] That was an investigation that started in
 [22] late April and terminated some time, I believe, in the
 [23] third week in May.

[24] Where the second of the discrete

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[1] different plans were distributed and put in to that
 [2] Keysop.

[3] That is what I thought you were talking
 [4] about.

[5] The initial setup of the Keysop.

[6] I learned about that in terms of the way it
 [7] was set up earlier incident to an analysis of what is
 [8] the package in terms of appropriate severance was
 [9] Sherif Abdelhak entitled to and under what bases.

[10] And that is what I thought you were talking
 [11] about.

[12] Again, I didn't learn that until after the
 [13] June time frame.

[14] That is what I thought you were talking
 [15] about.

[16] MR. PIETRAGALLO: Would you excuse us one
 [17] second?

[18] MR. SPITALENTO: Sure.

[19] THE VIDEOGRAPHER: This concludes tape 1 of
 [20] the deposition of Mr. Charles Queenan. We are
 [21] off the record. The time is 11:21 a.m.

[22] (Discussion off the record.)

[23] THE VIDEOGRAPHER: This begins tape 2 of
 [24] the deposition of Mr. Charles Queenan. We are
 [25] back on the record. The time is 11:23 a.m.

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[1] assignments happened. This occurred as a result of a
 [2] phone call I received from Mr. Danforth saying that
 [3] over the phone that the decision had been made to
 [4] consider the termination of Mr. Abdelhak, that he
 [5] wanted me and our firm to engage in an analysis of
 [6] what an appropriate severance arrangement would be
 [7] under the employment contract that Mr. Abdelhak had
 [8] with AHERF. And would I meet with Mr. Kasperbauer as
 [9] soon as possible.

[10] So the second of the discrete assignments
 [11] related to an analysis of the employment contract, the
 [12] compensation package that Mr. Abdelhak had. His
 [13] employment contract. And an appropriate severance
 [14] arrangement.

[15] The third discrete involvement, and on my
 [16] part this became less and less of an involvement was
 [17] in my mind crisis management.

[18] And it started in the latter part of June,
 [19] and in part overwhelmed and enveloped the severance
 [20] arrangement for Mr. Abdelhak.

[21] And it was the result of information coming
 [22] to the attention of the directors by reason of the
 [23] change from personnel, the CEO from Mr. Abdelhak to
 [24] Mr. Sanzo, wherein information started to be brought
 [25] of the deteriorating nature of the financial affairs

of the institution.
It was crisis management which involved a close look at a variety of options.
These options included combinations with other entities.
They included refinancing.
They included looking to obtain help at both the federal and the state level from the standpoint of financial help.
It included an analysis of whether a bankruptcy was an appropriate option.
That was the third.
And I describe that crisis management.
The second I described as severance arrangements for Abdelhak.
And the first I described as accounting investigation.
MR. DORMAN: Did you say the third was accounting investigation?
A: That was the first. The second, severance arrangements. The third, crisis management.
Q: In conjunction with the first assignment, was there any consideration or review of endowment documents or restricted funds?
A: I don't recall that I got to that at that

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A: He is a partner in the firm of Kirkpatrick & Lockhart.
Q: Did you ever work with him in regard to AHERF?
A: No.
Q: What is his practice area?
A: He has a wide variety. Certainly litigation would be one.
He also is involved in business affairs.
But heavily involved in procedural aspects of litigation.
A former judge, as you know.
Q: Are you aware of what work he was doing for AHERF or any of its subsidiaries?
A: No.
Let me correct that.
I certainly was not aware of anything reflected in the May 13th letter.
In the crisis management or the third phase, I do recall that he was trying to be helpful with believe people at the state level to see in terms of one of the options of state and federal levels that he was involved in trying to ascertain what the possibility would be to get some support from state government to tie this thing over until we had

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time.
I don't believe I did.
Q: Was it an issue that was raised?
A: I don't recall it was an issue raised then.
Q: If you could look at Exhibit 1694A.
MR. PIETRAGALLO: Can you tell me what I am looking for?
Q: Can you identify that document?
A: I can not.
Q: You have never seen it before preparation for your deposition or today?
A: I never saw it, I am not even sure I saw this during preparation.
Q: For the record, it appears to be a May 13, 1998 letter to Rob Byer at Kirkpatrick & Lockhart from Nancy Wynstra.
I will direct you to the first sentence, Mr. Queenan, "Enclosed are the documents relative to the various endowments at the former Graduate hospitals, which you have requested."
Are you aware of whether or not Mr. Byer was conducting some examination of the endowment documents?
A: I was not aware.
Q: Who is Mr. Byer?

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refinancing.
Q: Are you aware of whether or not in connection with what you are referring to as the crisis management assignment any consideration or evaluation was done of endowments or restricted funds?
A: That was an issue that had come up. In terms of just the relevance and how it came up in terms of the crisis management, I don't know.
I was not personally involved in it.
Q: Who was involved?
A: Other lawyers in the firm. Just which ones, I don't know.
Q: Did you do any work in connection with the potential Vanguard agreement or acquisition of some AHERF entities?
A: Other than reading it, reading a draft of one of the acquisition agreements, I did not.
Q: Are you aware of whether Vanguard did due diligence in connection with their consideration of purchasing AHERF entities?
A: I am not aware. I assume they did. But I am not aware.
Q: If I could refer you to Exhibit 1714A.
Can you identify that document?
A: I can.

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TAB 245

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TAB 246

In The Matter Of:

*AHERF v.
PRICEWATERHOUSECOOPERS, L.L.P.*

WILLIAM SNYDER, III

July 15, 2003

***LEGALINK MANHATTAN
420 Lexington Avenue - Suite 2108
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SNYDER, III, WILLIAM



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WILLIAM SNYDER, III

		Page 37	Page 39
09:54:27 1	St. Christopher's?		
09:54:27 2	A. I've been going through that since you've been		09:57:51 1 Q. And was it your understanding that adding
09:54:31 3	talking trying to remember whether -- I know we		09:58:00 2 Hahnemann to AHERF's network of hospitals in
09:54:33 4	talked about it. Whether it was completed or		09:58:03 3 Philadelphia would increase the strength of
09:54:35 5	not, I don't remember.		09:58:06 4 AHERF's hospitals overall?
09:54:43 6	Q. Do you recall that thereafter AHERF acquired		09:58:08 5 A. Oh, certainly.
09:54:56 7	Hahnemann University?		09:58:09 6 Q. By the ability to refer patients?
09:54:56 8	A. Hahnemann?		09:58:15 7 A. Right.
09:54:58 9	Q. Yes.		09:58:15 8 Q. And to achieve --
09:54:59 10	A. Right.		09:58:16 9 A. That was the main reason for all of them, the
09:55:01 11	Q. And what was the reason why AHERF acquired		09:58:21 10 ability to refer patients.
09:55:07 12	Hahnemann?		09:58:22 11 Q. Do you recall there being any consideration
09:55:07 13	A. Well, it was a leading hospital -- one of the		09:58:24 12 about the ability to achieve efficiencies from
09:55:18 14	leading hospitals in Philadelphia and would be,		09:58:28 13 having more hospitals?
09:55:31 15	again, a facility that would be a good thing		09:58:30 14 A. Well, there was supposed to be synergies in
09:55:38 16	for us to own. That's as much as I can say		09:58:34 15 that, yes.
09:55:41 17	about it. I was not against it.		09:58:34 16 Q. Do you recall what those were?
09:55:43 18	Q. Do you recall that there was also a medical		09:58:35 17 A. Well, economy of size.
09:55:47 19	school that was part of Hahnemann?		09:58:46 18 Q. And do you know whether AHERF then did realize
09:55:49 20	A. Yes.		09:58:53 19 an economy of size?
09:55:49 21	Q. And did you think it was a good idea for AHERF		09:58:56 20 A. Well, I remember that they certainly strove to
09:55:58 22	to acquire a second medical school?		09:59:00 21 have that -- to accomplish that, and to what
09:56:00 23	A. Well, I think they were -- I don't remember,		09:59:04 22 degree it was accomplished, I'm not in a
09:56:03 24	but I think they were joined together, so there		09:59:06 23 position to say.
09:56:08 25	was one, and they flew under the MCP flag. I		09:59:07 24 Q. Do you remember a discussion about how being
			09:59:13 25 larger would help AHERF in negotiating with
		Page 38	Page 40
09:56:14 1	don't remember the size of the Hahnemann		09:59:17 1 insurance companies?
09:56:16 2	Medical School		09:59:18 2 A. With what?
09:56:24 3	Q. And what information did you have as a member		09:59:19 3 Q. Insurance companies.
09:56:27 4	of the board about the consolidation of these		09:59:21 4 A. Oh, with insurance companies. Sure.
09:56:30 5	two medical schools?		09:59:24 5 Certainly.
09:56:35 6	MR. WHITNEY: Objection. Vague.		09:59:24 6 Q. And what do you recall about that?
09:56:39 7	MR. MCCLENAHAN: You may answer if		09:59:26 7 A. Well, I recall that if we had -- would have had
09:56:41 8	you recall.		09:59:31 8 or did have a big enough slice of the insurance
09:56:46 9	A. I don't think there was any objection to		09:59:34 9 market, that we could call some of the shots
09:56:49 10	putting them together, no. As a matter of		09:59:39 10 Q. So that by having hospitals like Hahnemann and
09:56:52 11	fact, I think everybody thought it was a good		09:59:43 11 St. Christopher's in the system that were seen
09:56:55 12	idea.		09:59:46 12 as clinically good hospitals, AHERF would be
09:56:55 13	Q. Do you recall there being any sorts of problems		09:59:49 13 able to get rates from the insurance companies
09:56:58 14	arising in the consolidation process?		09:59:51 14 that would be higher?
09:57:01 15	A. Personnel problems, yes.		09:59:52 15 A. That was one of the ideas, yes.
09:57:03 16	Q. Personnel problems meaning faculty or --		09:59:54 16 Q. And do you know if that goal was accomplished
09:57:07 17	A. Yes, faculty.		10:00:01 17 by AHERF?
09:57:08 18	Q. Do you know what the financial condition of		10:00:03 18 A. No, I don't know that.
09:57:27 19	Hahnemann University Hospital was at the time		10:00:04 19 Q. Do you remember anyone in management at AHERF
09:57:28 20	that AHERF acquired it?		10:00:13 20 or on the board of trustees speaking out
09:57:30 21	A. Well, I know university hospitals were having		10:00:16 21 against the acquisition of Hahnemann?
09:57:41 22	trouble financially, and I think, I recall,		10:00:20 22 A. I don't recall.
09:57:43 23	that Hahnemann also was having some financial		10:00:20 23 Q. You testified earlier a little bit about
09:57:48 24	troubles, but it was within our ability to		10:00:42 24 AHERF's acquisition of physician practices, is
09:57:49 25	handle it at the time.		10:00:45 25 that right?

WILLIAM SNYDER, III

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<p>10:00:45 1 A. Yes.</p> <p>10:00:46 2 Q. And a principal purpose of those acquisitions was to increase the number of patients at the hospitals, is that right?</p> <p>10:01:00 4 A. Right.</p> <p>10:01:01 6 Q. Do you recall that the practices themselves were losing a considerable amount of money?</p> <p>10:01:14 8 A. Are you talking about before or after acquisition?</p> <p>10:01:17 9 Q. After acquisition.</p> <p>10:01:18 11 A. Yes. They were losing a considerable amount of money after acquisition as a whole.</p> <p>10:01:24 13 Q. Yes.</p> <p>10:01:25 14 A. Yes.</p> <p>10:01:25 15 Q. And was that a concern to you?</p> <p>10:01:27 16 A. Yes, it was.</p> <p>10:01:28 17 Q. And what types of discussions do you recall about that concern?</p> <p>10:01:34 19 A. I recall discussions about the amount of money we were expending to purchase them and when we were going to see some return on that. It was a difficult thing to see a return, because you had to wait till the hospitals got the additional patients, and that, of course, took time to do that. So it was difficult to</p>	<p>10:03:49 1 were some measures in place to attempt to reduce the losses?</p> <p>10:03:52 2 A. Yes. Yes. There was always an attempt to contain costs wherever possible.</p> <p>10:04:02 5 Q. That was something that Sheriff Abdelhak told the board?</p> <p>10:04:06 7 A. Yes. He preached that.</p> <p>10:04:08 8 Q. Let me turn now, if I could, to these meetings that I think you mentioned that you would have with Sheriff Abdelhak.</p> <p>10:04:25 10 A. Sure.</p> <p>10:04:28 12 Q. Were these generally in person or by telephone or how did you communicate?</p> <p>10:04:33 14 A. Mostly in person, because I was just a floor below him, and I would walk upstairs or he'd come down to see me.</p> <p>10:04:42 17 Q. I see. So you had an office in Fifth Avenue Place?</p> <p>10:04:46 19 A. Yes, I did.</p> <p>10:04:46 20 Q. And that was an AHERF office?</p> <p>10:04:50 21 A. Well, it was three offices and a meeting room. The meeting room was used exclusively by AHERF.</p> <p>10:05:00 23 My office was paid for by AHERF, and I had two other offices. I had a secretary and an accountant, and their space I paid for by</p>
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<p>10:02:05 1 dollarize anything there.</p> <p>10:02:07 2 Q. Was it your understanding that this was a strategy that had considerable short-term costs, but that hopefully would have considerable long-term benefits?</p> <p>10:02:20 6 A. Long-term gains, right.</p> <p>10:02:22 7 Q. And was that something that was in these board meetings talked about, this issue of short-term cost versus long-term gain?</p> <p>10:02:32 10 A. I'm sure that Sheriff explained that, and that was the understanding of everybody, that it would take some time, as I had just stated.</p> <p>10:02:41 13 Q. Were there any members of the board of trustees who you recall speaking out against this strategy of acquiring physician practices?</p> <p>10:03:05 16 A. No, sir, I can't remember that, but I can remember that there was lively discussion about it, because nobody understood -- some people did not understand it too well, and it had to be explained to them in detail.</p> <p>10:03:19 21 Q. Do you know whether AHERF management was taking any steps to try to deal with these losses at the practices after acquisition?</p> <p>10:03:33 24 A. No, I don't remember what they tried to do.</p> <p>10:03:41 25 Q. Was it your understanding, though, that there</p>	<p>10:05:10 1 returning money to AHERF. So, ostensibly, they just paid for my office.</p> <p>10:05:15 2 Q. Understood.</p> <p>10:05:28 4 A. And would Sheriff Abdelhak bring questions or concerns to you or was it you raising questions with him or did it go both ways?</p> <p>10:05:39 8 A. Both ways, yes.</p> <p>10:05:40 9 Q. What types of questions would you raise with Mr. Abdelhak?</p> <p>10:05:45 11 A. I raised questions constantly about we were going pretty fast in this whole thing, and we better assimilate some of the things before we went into others.</p> <p>10:06:07 15 Q. And when you say that you were going pretty fast, you mean AHERF's pace of acquisitions?</p> <p>10:06:12 17 A. Yes.</p> <p>10:06:13 18 Q. And what did Mr. Abdelhak say about that?</p> <p>10:06:17 19 A. I don't know what he said about that.</p> <p>10:06:22 20 Q. I mean, did he express to you a confidence that he had everything under control?</p> <p>10:06:30 22 A. Sheriff Abdelhak had a confidence -- self-confidence in everything, everything.</p> <p>10:06:34 23 There was very few things that he couldn't accomplish.</p> <p>10:06:39 24</p> <p>10:06:46 25</p>

WILLIAM SNYDER, III

		Page 45			Page 47
10:06:46	1	Q. Did you considerate at all trying to implement	10:09:38	1	THE VIDEOGRAPHER: We're now going
10:07:02	2	some type of benchmarks to determine how AHERF	10:09:40	2	off the record. The time on the screen is
10:07:07	3	was doing in terms of assimilating	10:09:42	3	10:09.
10:07:11	4	newly-acquired entities?	4		-----
10:07:13	5	A. No. I don't think it was possible at the time.	5		(There was a recess in the proceedings.)
10:07:18	6	They were going too fast.	6		-----
10:07:19	7	Q. Did you suggest to Mr. Abdelhak that the	10:23:30	7	THE VIDEOGRAPHER: We're now back on
10:07:26	8	organization ought to slow down on the pace of	10:24:28	8	the record. The time on the screen is 10:24.
10:07:28	9	acquisitions?	10:24:31	9	BY MR. RYAN:
10:07:29	10	A. Yes.	10:24:31	10	Q. We've been talking a little bit, Mr. Snyder,
10:07:29	11	Q. In the end, though, the acquisitions continued,	10:24:35	11	about a series of acquisitions that AHERF made.
10:07:41	12	didn't they?	10:24:43	12	What role, in your understanding, did the board
10:07:41	13	A. I don't know what time frame you're talking	10:24:45	13	of trustees play in reviewing or approving
10:07:45	14	about that I said that, but in the end, they	10:24:50	14	those acquisitions?
10:07:47	15	certainly did continue.	10:24:55	15	A. Well, they did just that, they reviewed them
10:07:48	16	Q. Well, during what time period were you raising,	10:24:58	16	and approved them after discussion.
10:07:56	17	you know, a suggestion that the organization	10:25:02	17	Q. And at least speaking for you personally, what
10:07:59	18	ought to slow down in the acquisition pace?	10:25:10	18	type of review did you undertake of these
10:08:00	19	A. At what period?	10:25:14	19	proposed acquisitions?
10:08:02	20	Q. Yes.	10:25:15	20	A. I normally talked to Abdelhak about each one
10:08:02	21	A. Did you say that? Oh, I don't remember. I	10:25:23	21	prior to the time it was brought to the board.
10:08:06	22	suppose halfway along the Philadelphia	10:25:26	22	Q. And what types of questions would you ask about
10:08:09	23	acquisition path.	10:25:31	23	a proposed acquisition?
10:08:12	24	Q. And did Mr. Abdelhak have arguments as to why	10:25:32	24	A. What the acquisition is going to bring to our
10:08:19	25	AHERF should continue making the acquisitions?	10:25:38	25	overall strategy, and questions as to the
		Page 46			Page 48
10:08:21	1	A. Convincing arguments.	10:25:47	1	financial implications.
10:08:23	2	Q. And I take it that he ended up convincing you	10:25:53	2	Q. And I take it that in each case, the answers
10:08:28	3	and other members of the board?	10:26:02	3	that Mr. Abdelhak gave you you thought were of
10:08:30	4	MR. WHITNEY: Objection. Foundation.	10:26:05	4	a satisfactory nature?
10:08:31	5	MR. RYAN: All right. Well, let me	10:26:06	5	A. I did.
10:08:31	6	just start with the simple question.	10:26:07	6	Q. Were there any other board members who were
10:08:33	7	BY MR. RYAN:	10:26:12	7	involved in sort of pre-discussions about
10:08:33	8	Q. I take it that he ended up -- that he ended up	10:26:17	8	acquisitions before the formal board meeting?
10:08:38	9	convincing you?	10:26:21	9	A. I don't know that.
10:08:41	10	A. Yes.	10:26:22	10	Q. Were there other board members with whom you
10:08:41	11	Q. Did any other trustees raise any concern with	10:26:25	11	had a practice of consulting in advance of
10:08:52	12	you in private outside board meetings about the	10:26:29	12	board meetings?
10:08:57	13	pace of AHERF's acquisitions?	10:26:31	13	A. No, I didn't have a practice of doing that, no.
10:08:58	14	A. I believe they did, but I can't tell	10:26:36	14	I did it possibly occasionally, but I didn't
10:09:04	15	specifically who they were. There was a lot of	10:26:39	15	make a general practice of it.
10:09:11	16	talk about it, and yet there was a lot of pride	10:26:40	16	Q. And I take it then that at the regular board of
10:09:19	17	in what we were doing	10:26:50	17	trustees meetings, there would be discussion of
10:09:23	18	MR. MCCLENAHAN: At some point when	10:26:55	18	at least the two aspects of proposed
10:09:26	19	it's convenient, I think we should take a	10:26:58	19	acquisitions that you mentioned, that is, what
10:09:30	20	ten-minute recess.	10:27:01	20	the proposed acquisition would bring to the
10:09:32	21	MR. RYAN: Sure. Now is fine to take	10:27:04	21	overall strategy and financial implications of
10:09:35	22	a short break --	10:27:06	22	the acquisition?
10:09:38	23	THE WITNESS: Okay.	10:27:07	23	A. Yes, and what it would mean, in some cases, to
10:09:35	24	MR. RYAN: -- if that's convenient to	10:27:15	24	Allegheny General because of the implication of
10:09:38	25	you.	10:27:17	25	teaching.

WILLIAM SNYDER, III

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11:27:15 1	MR. WHITNEY: Objection. Vague.	11:29:48 1	been working very hard. We have to get the
11:27:15 2	THE WITNESS: What are we doing here?	11:29:50 2	earnings up in this corporation?
11:27:18 3	MR. MCCLENAHAN: Also, I have the	11:29:52 3	A. Yes.
11:27:19 4	same objection. Do you want him to answer the	11:29:53 4	Q. Do you recall Mr. Barnes making comments of
11:27:24 5	question that you posed?	11:29:58 5	that type?
11:27:26 6	MR. RYAN: Could you read it back,	11:29:58 6	A. No.
11:27:27 7	please, while I listen to the question?	11:29:59 7	Q. Did you hold the view that earnings at AHERF in
8	-----	11:30:09 8	fiscal year 1996 were unimpressive?
9	(The record was read back by the Reporter.)	11:30:11 9	A. Yes.
10	-----	11:30:12 10	Q. And was it your view at the time that
11:27:49 11	MR. RYAN: All right. Let me ask,	11:30:15 11	management had been working very hard and that
11:27:51 12	maybe, a better question.	11:30:18 12	the organization had to get the earnings up?
13	BY MR. RYAN:	11:30:20 13	A. Yes.
11:27:55 14	Q. Did you have an understanding as to what	11:30:20 14	Q. Do you see the next sentence reads: There
11:28:00 15	financial measure in particular Mr. Barnes was	11:30:25 15	tends to be a casual atmosphere on this issue?
11:28:03 16	concerned about?	11:30:31 16	A. Yes, I see that.
11:28:04 17	MR. MCCLENAHAN: You mean on	11:30:32 17	Q. Do you have any understanding as to what that
11:28:04 18	December 2, 1996, because that's the document	11:30:35 18	might refer to?
11:28:09 19	we've been talking about?	11:30:36 19	MR. MCCLENAHAN: You mean what
11:28:13 20	MR. RYAN: Well, I wasn't trying to	11:30:37 20	Mr. Barnes meant?
11:28:16 21	limit it. Let me step back one step again.	11:30:38 21	MR. RYAN: Yes.
11:28:19 22	BY MR. RYAN:	11:30:39 22	A. Yes. I thought Mr. Barnes felt that way.
11:28:19 23	Q. If I understood you right, you can recall there	11:30:42 23	Q. Do you know what he meant by that? A casual
11:28:23 24	being concern on the part of Mr. Barnes about	11:30:46 24	atmosphere on whose part?
11:28:26 25	the fiscal year 1996 results?	11:30:50 25	A. No, I don't know what he meant by it.
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11:28:28 1	A. Correct.	11:30:53 1	Q. Was it your understanding at the time that
11:28:29 2	Q. And he expressed that concern at some board	11:31:19 2	AHERF management believed that the strategies
11:28:34 3	meeting or meetings that you attended?	11:31:22 3	it had put in place of acquiring hospitals and
11:28:36 4	A. Yes.	11:31:27 4	physician practices would help to improve the
11:28:36 5	Q. And did you have an understanding at that time	11:31:30 5	earnings going forward?
11:28:41 6	about which measure on financial statements	11:31:31 6	A. Yes.
11:28:44 7	Mr. Barnes was particularly concerned about?	11:31:32 7	Q. And how did you believe that that would happen?
11:28:47 8	A. No. All I say is he was concerned about the	11:31:41 8	Through increased patient referrals or --
11:28:51 9	lack of profitability and the lack of cash on	11:31:45 9	A. Yes.
11:28:55 10	hand.	11:31:46 10	Q. Do you recall there being at AHERF at some
11:28:55 11	Q. And did you share Mr. Barnes' concerns?	11:32:14 11	point in time a centralization of certain
11:29:01 12	A. At that time, yes.	11:32:20 12	support functions to Pittsburgh?
11:29:03 13	Q. Do you know whether any other members of the	11:32:21 13	A. Yes.
11:29:09 14	AHERF board did or did not share those	11:32:21 14	Q. And what do you recall about that
11:29:10 15	concerns?	11:32:28 15	centralization project?
11:29:12 16	A. No, I don't.	11:32:32 16	A. Well, I recall that Sherif felt that we should
11:29:13 17	Q. From talking to Sherif Abdelhak, do you know	11:32:39 17	centralize a lot of the operations and
11:29:19 18	whether he shared those concerns, or did he	11:32:43 18	decisions in Pittsburgh as the -- to get a
11:29:21 19	have a different view from Mr. Barnes, if you	11:32:50 19	better focus on what was going on in the
11:29:27 20	know?	11:32:52 20	overall picture.
11:29:27 21	A. I don't know. Whatever I say would be	11:32:54 21	Q. Was the hope, in your understanding, to have
11:29:31 22	speculation. I don't know.	11:33:02 22	economies of scale?
11:29:36 23	Q. Do you see that the comments attributed to	11:33:03 23	A. Oh, absolutely.
11:29:40 24	Mr. Barnes go on to say: Quantitatively,	11:33:04 24	Q. And was it your understanding that among the
11:29:44 25	earnings were unimpressive. Management has	11:33:10 25	functions that were being consolidated back to

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11:33:13	1	Pittsburgh was the collection of patient bills?	11:40:09	1	A. Okay.
11:33:18	2	A. Patient bills?	11:40:10	2	Q. Has this helped at all to bring back two
11:33:19	3	Q. Yes.	11:40:16	3	reasons why AHERF was acquiring Graduate?
11:33:19	4	A. Yes. Yes.	11:40:18	4	A. Yes. Yes.
11:33:21	5	Q. Did you come to learn how that project of	11:40:19	5	Q. All right. And what reasons are those?
11:33:31	6	centralizing patient billing had gone?	11:40:21	6	A. What's your question?
11:33:36	7	A. I don't know what you mean had gone. Do you	11:40:22	7	Q. Based on having now reviewed this overview,
11:33:39	8	mean whether it improved the situation?	11:40:29	8	what reasons do you recall AHERF having for
11:33:41	9	Q. Whether it had worked out or not, yes.	11:40:34	9	making the Graduate acquisition?
11:33:45	10	A. I don't recall.	11:40:37	10	A. There again, I believe for the same reason, to
11:33:45	11	Q. Let me hand you, Mr. Snyder, what's previously	11:41:00	11	provide more patients for all the hospitals.
11:34:32	12	been marked as Exhibit 80, and if you could	11:41:13	12	Q. So that the idea was that by increasing in
11:34:58	13	just take a moment to review at least the cover	11:41:17	13	size, the acquisition would improve the overall
11:35:00	14	letter.	11:41:21	14	financial strength of the eastern region?
11:35:27	15	A. All right.	11:41:24	15	A. More economies of scale.
11:35:28	16	Q. Do you recall receiving a copy of this letter	11:41:26	16	Q. Okay. Economies of scale with the Graduate
11:35:35	17	from Mr. Abdelhak dated August 2, 1996	11:41:29	17	hospitals and the existing hospitals in the
11:35:40	18	regarding the acquisition of the Graduate	11:41:31	18	eastern region?
11:35:42	19	Health System?	11:41:32	19	A. That's correct. Just in the east.
11:35:43	20	A. No. No, I don't recall.	11:41:36	20	Q. So that would be the hospitals we've talked
11:35:46	21	Q. Do you recall that at some point in time AHERF	11:41:38	21	about, MCP, United and Hahnemann?
11:35:49	22	did acquire hospitals in the Graduate Health	11:41:40	22	A. Hahnemann, yes.
11:35:51	23	System?	11:41:41	23	Q. Do you recall that AHERF was making the
11:35:51	24	A. Oh, yes.	11:41:50	24	Graduate acquisition through a corporation
11:35:52	25	Q. And what do you recall about why AHERF made	11:41:55	25	called SDN, Inc.?
		Page 90			Page 92
11:35:58	1	that acquisition?	11:41:58	1	A. Yes.
11:36:05	2	A. I don't know. I'd have to go back and read a	11:41:59	2	MR. WHITNEY: Objection. Foundation.
11:36:15	3	lot more about it before I could tell you why	11:42:00	3	Q. And what do you recall about that?
11:36:18	4	we tried to acquire Graduate.	11:42:03	4	A. I recall, as far as I can remember, was that it
11:36:19	5	Q. Do you see here in Exhibit 80, in	11:42:15	5	was an effort to not put more debt on the AHERF
11:36:45	6	Mr. Abdelhak's letter, the third sentence	11:42:20	6	balance sheet and to have it over to the side,
11:36:48	7	reads: I consulted extensively with Bill	11:42:25	7	but reserving the right to put that hospital
11:36:53	8	Snyder, and he is in full agreement with the	11:42:27	8	into the AHERF family when the time seemed
11:36:55	9	proposed action?	11:42:32	9	appropriate.
11:36:56	10	A. Yes.	11:42:32	10	Q. And you didn't believe, did you, that there was
11:36:56	11	Q. Do you remember anything about Mr. Abdelhak	11:42:36	11	anything improper about the use of SDN, Inc.?
11:37:03	12	consulting with you?	11:42:41	12	A. It worried me, but I asked Nancy, and she said
11:37:06	13	MR. WHITNEY: About Graduate?	11:42:46	13	she thought it was perfectly legal.
11:37:07	14	MR. RYAN: Yes.	11:42:47	14	Q. When you say that it worried you, what worried
11:37:10	15	A. All I can remember is that he consulted with me	11:42:50	15	you about it?
11:37:14	16	about that and all the rest of the hospitals.	11:42:50	16	A. Well, just from what you said. Why are we
11:37:20	17	He says in here, the -- extensively is the word	11:42:53	17	doing things off to the side? I'm always leery
11:37:31	18	he uses, so I assume that he talked to me a lot	11:42:58	18	of off-balance sheet things, and this was an
11:37:34	19	about it.	11:43:05	19	idea that -- I don't know who hatched this
11:37:35	20	Q. Why don't -- if you would, why don't you take a	11:43:07	20	idea, whether it was Sherif or Nancy or who it
11:37:38	21	moment to review the next two pages --	11:43:10	21	was, but --
11:37:39	22	A. All right.	11:43:11	22	Q. All right. So you consulted with Ms. Wynstra
11:37:40	23	Q. -- which are entitled Overview of Proposal for	11:43:14	23	about it?
11:37:44	24	Certain Graduate Health System Entities to	11:43:14	24	A. Yes, in conjunction with Sherif.
11:37:45	25	Become Part of SDN, Inc.	11:43:17	25	Q. And she told you that this was a perfectly

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11:43:22 1	legal mechanism?	11:46:15 1 into AHERF.
11:43:23 2	A. Yes.	11:46:15 2 Q. Oh, I see.
11:43:23 3	Q. Do you recall anything else that she may have	11:46:17 3 A. I mean, that was left open.
11:43:25 4	told you about SDN?	11:46:21 4 Q. Was there a discussion of whether it would be
11:43:28 5	A. No.	11:46:28 5 all of the Graduate hospitals or none or if
11:43:29 6	Q. Did you consult at all with Coopers & Lybrand	11:46:32 6 some hospitals might be selected to be
11:43:34 7	about SDN?	11:46:35 7 integrated into the system?
11:43:36 8	A. No.	11:46:35 8 A. Yes, there was discussion of what entities we
11:43:36 9	Q. Did you consult with Coopers & Lybrand about	11:46:40 9 should acquire.
11:43:43 10	the Graduate acquisition in general?	11:46:41 10 Q. And what do you recall about that?
11:43:47 11	A. No.	11:46:43 11 A. I don't remember what they were, but I remember
11:43:47 12	Q. If you take a look, please, it's the page with	11:46:45 12 there was people talking about one and the
11:44:01 13	number -- the number ending in 2668, using	11:46:48 13 other.
11:44:05 14	these little numbers in the bottom right, these	11:46:48 14 Q. There was a view that certain hospitals might
11:44:08 15	Bates numbers.	11:46:50 15 not be as desirable as other hospitals?
11:44:10 16	A. 2668. I've got it.	11:46:53 16 A. Right. Right.
11:44:12 17	Q. Are you with me on a schedule called Actual	11:46:53 17 Q. Who then was going to decide which of the
11:44:16 18	Statement of Revenue and Expenses 11 Months	11:47:05 18 Graduate hospitals would be integrated into
11:44:19 19	Ended May 31, 1996?	11:47:09 19 AHERF?
11:44:21 20	A. Yes, sir.	11:47:09 20 A. I would assume Sheriff. Assume. I say it was
11:44:21 21	Q. Do you know whether you reviewed this kind of	11:47:19 21 Sheriff that would decide that.
11:44:25 22	financial information for the Graduate	11:47:20 22 Q. And do you recall that the board of trustees
11:44:26 23	hospitals prior to the acquisition?	11:47:22 23 gave him authority to make that decision?
11:44:29 24	MR. MCLENAHAN: Objection to the	11:47:24 24 A. No, I don't recall that.
11:44:30 25	form. What do you mean by this kind of	11:47:25 25 Q. Let me hand you, Mr. Snyder, what's previously
	Page 94	Page 96
11:44:34 1	financial information? You mean did he review	11:47:52 1 been marked as Exhibit 832, and let me just ask
11:44:35 2	this particular sheet?	11:48:15 2 you first does this appear to be a copy of the
11:44:39 3	Q. Do you know whether you reviewed an income	11:48:17 3 minutes of what's referred to as the Annual
11:44:43 4	statement, whether it was this schedule or	11:48:21 4 Meeting of the Board of Trustees of AHERF held
11:44:47 5	another income statement schedule, for the	11:48:23 5 on Thursday, December 12, 1996?
11:44:49 6	Graduate hospitals before the acquisition?	11:48:25 6 A. It does.
11:44:51 7	A. I don't recall.	11:48:27 7 Q. And what I'd like to call your attention to, if
11:45:00 8	Q. And this schedule appears to show a net loss	11:48:33 8 I could, is beginning on page 4, the section
11:45:10 9	for this 11-month period of \$9,697,000?	11:48:39 9 headed Reorganization of Certain Graduate
11:45:17 10	A. That's what it shows.	11:48:42 10 Health System Entities, and then there are a
11:45:19 11	Q. And two rows up, a loss from operations of	11:48:46 11 number of resolutions that continue on to
11:45:23 12	\$20,124,000?	11:48:49 12 page 10.
11:45:26 13	A. Yes.	11:50:13 13 A. Yeah. Okay.
11:45:27 14	Q. Do you recall a discussion at the board of	11:50:14 14 Q. Let me ask you first, since I don't have the
11:45:34 15	trustees about how the Graduate hospitals were	11:50:18 15 benefit for this meeting of the type of
11:45:37 16	doing in terms of their financial condition?	11:50:22 16 transcription of shorthand notes that we saw
11:45:41 17	A. No. I don't remember that discussed.	11:50:24 17 earlier, does a review of the minutes here that
11:45:45 18	Q. I think you mentioned in the context of SDN	11:50:30 18 you've just looked at help you to recall what
11:45:51 19	that you do recall that there was a possibility	11:50:33 19 was said at this meeting about the Graduate
11:45:55 20	that only certain of the Graduate hospitals and	11:50:37 20 acquisition?
11:45:58 21	not all of them would be integrated into AHERF,	11:50:38 21 A. Not too much, no.
11:46:06 22	is that right?	11:50:40 22 Q. Do you recall any member of the board of
11:46:06 23	A. That isn't what we were talking about. We were	11:50:46 23 trustees speaking against the Graduate
11:46:09 24	talking about, I said, it was possible in the	11:50:50 24 acquisition?
11:46:11 25	future that the hospitals could be integrated	11:50:58 25 A. No, I don't recall that. I'd like to help

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11:51:03	1	there, but I don't recall that.	11:54:17	1	yes Well, you can't tell from this.
11:51:04	2	Q. Do you recall any member of the board raising	11:54:20	2	Q. Right. I don't believe that it indicates who
11:51:10	3	any questions or concerns about the acquisition	11:54:23	3	was where.
11:51:14	4	even if it didn't rise to the level of speaking	11:54:25	4	A. What do those check marks mean?
11:51:17	5	against it, so to speak?	11:54:28	5	Q. I don't know. That I cannot tell you.
11:51:24	6	A. Well, there's a difference between recalling	11:54:33	6	A. I'll tell you what I think they mean, that the
11:51:26	7	exactly what we're talking about and the	11:54:37	7	check marks were in Pittsburgh, and the ones
11:51:32	8	impression left in my mind about these	11:54:41	8	that are unchecked were in Philadelphia.
11:51:36	9	acquisitions. That's all I can say. There's a	11:54:42	9	That's just a guess, but it looks like
11:51:39	10	difference there, but since I can't be	11:54:44	10	it, because -- no, that wouldn't be right
11:51:41	11	specific, I can't answer that.	11:54:46	11	either, because I was in Pittsburgh. So I
11:51:45	12	Q. Do you remember any trustee raising with you	11:54:48	12	don't know what they are.
11:51:57	13	the issue of the fact that AHERF management had	11:54:49	13	Q. This is just a copy how we found it in AHERF's
11:52:02	14	announced the acquisition of the Graduate	11:54:54	14	files.
11:52:04	15	hospitals before consulting with the full	11:54:54	15	A. Um-hum.
11:52:16	16	board?	11:54:56	16	Q. Do you remember any trustee asking any
11:52:16	17	A. No.	11:55:12	17	questions about whether AHERF's financial
11:52:17	18	Q. And you're shown as being present at this	11:55:16	18	condition was such that the organization could
11:52:36	19	meeting of the board, right?	11:55:18	19	afford to make the Graduate acquisition?
11:52:37	20	A. I was there, yes.	11:55:21	20	A. No.
11:52:38	21	Q. And I assume that you voted in favor of the	11:55:23	21	Q. Do you know what any other members of AHERF
11:52:44	22	resolutions --	11:55:32	22	management, apart from Sherif Abdelhak, may
11:52:45	23	A. Yes.	11:55:35	23	have thought about the Graduate acquisition?
11:52:45	24	Q. -- relating to the Graduate acquisition?	11:55:37	24	A. No.
11:52:50	25	A. Well, I guess I did if the minutes show it.	11:55:39	25	Q. I think you mentioned that you recall speaking
		Page 98			Page 100
11:52:56	1	There was no objection on my part.	11:55:43	1	to Ms. Wynstra at least about the SDN matter?
11:53:01	2	You have to understand that these	11:55:47	2	A. SDN, yes. Yes.
11:53:10	3	video conferences were tough. You couldn't see	11:55:48	3	Q. Did you talk with her about the Graduate
11:53:12	4	the people on the other side, on the	11:55:50	4	acquisition generally?
11:53:14	5	Philadelphia side, and it made it very hard, I	11:55:51	5	A. No. No, no.
11:53:19	6	thought, to conduct a proper meeting, but	11:55:57	6	Q. Did you have a practice at all of consulting
11:53:22	7	that's what we did.	11:56:04	7	with Dr. Kaye about acquisitions in the eastern
11:53:22	8	Q. Okay. So let me make sure that I understand	11:56:08	8	region?
11:53:25	9	this. There were certain trustees present in a	11:56:08	9	A. No. The only thing I did with Dr. Kaye is he
11:53:28	10	conference room in Pittsburgh and others	11:56:17	10	cured me of malaria. If it hadn't been for
11:53:30	11	present in a conference room in Philadelphia?	11:56:21	11	Dr. Kaye, I would not be sitting here today.
11:53:32	12	A. Correct.	11:56:24	12	Q. Well, that's certainly a testament to his
11:53:32	13	Q. And then there was some sort of video	11:56:29	13	medical skill.
11:53:35	14	conferencing technology used so that you	11:56:31	14	Do you recall -- and if I asked you
11:53:41	15	sitting in Pittsburgh could, in effect, see the	11:56:40	15	this this morning, please forgive me. Do you
11:53:43	16	trustees in Philadelphia on a T.V. screen	11:56:42	16	recall if there was an executive committee of
11:53:45	17	basically?	11:56:45	17	the board?
11:53:45	18	A. On a T.V. screen, right. It was the Sony	11:56:45	18	A. Executive committee report on this?
11:53:49	19	system, and it was in the early stages, and it	11:56:49	19	Q. Executive committee of the board?
11:53:51	20	was only fairly good in my opinion.	11:56:51	20	A. Oh, yes, yes. Yeah.
11:54:03	21	Q. I assume that Mr. Abdelhak would have been in	11:56:53	21	Q. How was that committee formed?
11:54:07	22	Pittsburgh, at least generally, at these board	11:56:56	22	A. I don't know. I'd like to see a copy of the
11:54:10	23	meetings, is that right?	11:56:59	23	members, because I've even forgotten that.
11:54:11	24	A. Yes. I don't know whether he was in this one	11:57:03	24	Q. I'll hand that to you just now.
11:54:14	25	or not, but he generally was in Pittsburgh,	11:57:11	25	A. Now, you haven't brought up any minutes of

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14:26:59 1 Q. And the idea was that AHERF would sell those assets, lease them back so it could continue to use them, and --

14:27:06 4 A. Get the cash and continue to use the facility.

14:27:11 5 Q. Right. Do you know why that sale/leaseback ended up falling through?

14:27:14 6 A. Ended up how?

14:27:16 8 Q. Falling through.

14:27:27 9 A. No, I don't. I do recall that one of the trustees was very much against it, because they felt it was short-term versus long-term, and that we'd lose out in the end.

14:27:46 13 Q. Do you recall who that trustee was?

14:27:48 14 A. No, I don't. No.

14:28:04 15 Q. Do you know ultimately, though, why that sale/leaseback didn't end up going through?

14:28:08 16 A. Why it didn't go through?

14:28:12 18 Q. Right.

14:28:14 19 MR. MCCLENAHAN: He just testified that he didn't know.

14:28:16 21 MR. RYAN: Oh, I'm sorry.

14:28:17 22 A. No, I didn't know. I don't remember, no.

14:28:20 23 Q. Do you recall that another measure AHERF management was engaged in to try to raise cash was to sell accounts receivable?

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14:29:57 1 Hospital, the other cost reductions --

14:29:58 2 A. I approved of those, yes.

14:30:01 3 Q. -- and the sale of the eastern hospitals to Vanguard?

14:30:04 5 A. Yes.

14:30:05 6 Q. Do you recall that in April 1998, AHERF repaid a loan from the Mellon Bank?

14:30:15 8 A. Yes, I do.

14:30:16 9 Q. And what do you recall about that?

14:30:18 10 A. All I could tell you about that is that Sheriff came to see me one morning early in my office and said he was forced to pay the Mellon Bank off. I don't remember the figure, but it sort of runs in my mind it was \$98 million. I may be wrong on that by now, but that's a figure that's in the back of my head, and that he had to do it or the Mellon Bank was going to foreclose. That's all I can remember. And I said to him, I think you should have taken that to the board before you took such drastic action. He said he didn't have time.

14:30:56 22 Q. Why did you consider that to be drastic action?

14:31:00 23 A. Well, we had all kinds of other debts, and just to single out one creditor and pay them back didn't seem right without full authority.

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14:28:35 1 A. I remember there was a discussion of it. I don't remember whether we did it or not.

14:28:39 3 Q. And was it your understanding, there again, that the idea would be to get cash in the short-term?

14:28:46 6 A. Right.

14:28:48 7 Q. Was it your feeling at this time in the fall of 1997 into the spring of 1998 that AHERF management was undertaking a number of proactive measures to try to improve the organization's condition?

14:29:13 12 A. Absolutely.

14:29:14 13 Q. And did you approve of the measures that they were undertaking?

14:29:20 15 A. Did I personally approve of them?

14:29:22 16 Q. Yes, sir.

14:29:23 17 MR. MCCLENAHAN: I mean, I will object to the question as vague. You've listed a number of such measures. There may be other measures, and I'm not sure whether he would give the same answer as to each and every one.

14:29:38 22 A. Yes, that's very true. I approved of the leaseback sale, and what other ones are you referring to? Accounts receivable?

14:29:52 25 Q. Yes. The layoffs, the closing of Mt. Sinai

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14:31:14 1 Q. And when you made this point to him, his response was that he hadn't had time?

14:31:23 3 A. He had no time. He said he was given an hour or something like that to make up his mind.

14:31:30 5 Q. Did you then talk about this Mellon Bank repayment with anyone else besides Mr. Abdelhak?

14:31:40 8 A. Well, it became a matter of general discussion immediately among -- at all the meetings, but I don't think that I specifically called anybody and said, hey, we just paid the Mellon Bank back.

14:31:54 13 Q. And when you say at meetings, you're talking about meetings of the board or of committees of the board?

14:32:01 16 A. Yes. Right.

14:32:02 17 Q. And what was the nature of that discussion?

14:32:04 18 A. Well, the propriety of doing it and how much time did we really have? Did the Mellon Bank really put the squeeze on us? That's about it.

14:32:23 21 Q. And were there trustees who expressed the view that Mr. Abdelhak should not have repaid the loan?

14:32:28 22 A. I don't remember if there was anybody that said they disapproved of it. I think they

14:32:31 23

14:32:33 24

14:32:37 25

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14:32:40 1	disapproved of the manner in which it was done		14:35:35 1	Q.	So the first event in the sequence of events.
14:32:43 2	so quickly.		14:35:41 2		as you recall, was this meeting that you had
14:32:43 3	Q.	Without consulting the board?	14:35:43 3		with three Allegheny General Hospital doctors?
14:32:45 4	A.	Without consulting the proper authorities. It	4	A.	This was the first what?
14:32:51 5		was a lot of money.	14:35:47 5		MR MCCLENAHAN: That would depend on
14:32:52 6	Q.	And did you also personally believe that	14:35:48 6		when you begin the sequence
14:33:00 7		Mr. Abdelhak should have consulted the board?	14:35:52 7	Q.	The first event in the series of events that
14:33:01 8	A.	Yes.	14:35:56 8		led to Mr. Abdelhak being fired was a meeting
14:33:02 9	Q.	Did Mr. Abdelhak's handling of the Mellon Bank	14:35:58 9		you had with three Allegheny General doctors?
14:33:14 10		repayment play a role in his being replaced as	14:36:00 10	A.	Yes, that was the first. Yes.
14:33:20 11		chief executive officer of AHERF?	14:36:02 11	Q.	Who were those doctors?
14:33:22 12	A.	The answer is that, among others.	14:36:04 12	A.	Dr. McGovern, Jr., Dr. Shannon, Richard
14:33:32 13	Q.	What were the other factors as you understood	14:36:11 13		Shannon, and Dr. Jeffrey Cohen.
14:33:36 14		them?	14:36:15 14	Q.	Could you spell that last one, please?
14:33:36 15	A.	Well, the condition of the corporation as a	14:36:18 15	A.	C-O-H-E-N. He's chief of urology. Still is.
14:33:43 16		whole and his handling of it. Where are we now	14:36:25 16	Q.	And where did this meeting with the doctors
14:33:51 17		in the time frame? When was bankruptcy? What	14:36:31 17		take place?
14:33:55 18		was the end date?	14:36:31 18	A.	At Dr. Shannon's house in Sewickley.
14:33:56 19	Q.	The bankruptcy, I think I can tell you, was	14:36:34 19	Q.	And who called the meeting, so to speak?
14:34:00 20		filed on July 21, 1998.	14:36:44 20	A.	It was Dr. Shannon called me, I believe, on
14:34:02 21	A.	So what we're talking about is how many months	14:36:47 21		Saturday and asked if I could meet tomorrow
14:34:04 22		before then?	14:36:50 22		afternoon, and I said certainly.
14:34:06 23	Q.	The Mellon Bank repayment?	14:36:52 23	Q.	And the meeting lasted --
14:34:09 24	A.	Yeah	14:36:56 24	A.	For three hours
14:34:10 25	Q.	I think it was three months before that.	14:36:57 25	Q.	And what issues did the three doctors raise
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14:34:12 1	A.	Three months. Okay. I just want to get the	14:37:03 1		with you in the meeting?
14:34:14 2		time frame in my head.	14:37:05 2	A.	Well, they mostly said the damage that happened
14:34:15 3	Q.	So you've mentioned, I think, as factors for	14:37:11 3		to Allegheny General, that was their main beef,
14:34:18 4		why Mr. Abdelhak was replaced, his handling of	14:37:15 4		because they were all Allegheny General
14:34:21 5		the repayment of the Mellon Bank loan, and then	14:37:17 5		Hospital, and they thought that the hospital
14:34:23 6		the condition of the corporation as a whole and	14:37:19 6		was being put in a very -- had been put in an
14:34:25 7		his handling of that?	14:37:23 7		extremely bad position, and it was getting
14:34:28 8	A.	The condition of the whole situation. We were	14:37:25 8		worse every day, and that they weren't going to
14:34:32 9		in dire straits.	14:37:28 9		stay if he stayed.
14:34:36 10	Q.	Who decided to replace Mr. Abdelhak as CEO?	14:37:30 10	Q.	Dr. Cohen, I think you mentioned, was the chief
14:34:42 11	A.	I did, with consultation with some of the	14:37:35 11		of urology?
14:34:46 12		senior board members.	14:37:36 12	A.	Yes. Dr. Shannon is chief of medicine.
14:34:48 13		I had a meeting with three other	14:37:40 13	Q.	And Dr. McGovern is a heart doctor?
14:34:51 14		senior doctors on a Sunday afternoon, and they	14:37:42 14	A.	He's a thoracic surgeon.
14:34:57 15		said that they were going to leave and pull a	14:37:46 15	Q.	And I take it that these were all three very
14:34:59 16		lot of the doctors out of Allegheny with them	14:37:53 16		eminent medical doctors?
14:35:02 17		if Abdelhak didn't go. It was about a	14:37:55 17	A.	Yes, and all reasonably young. Not real young,
14:35:05 18		three-hour meeting. Then when I got back from	14:38:02 18		but reasonably young.
14:35:08 19		that meeting, I called a number of the leading	14:38:02 19	Q.	And they told you that if Mr. Abdelhak wasn't
14:35:12 20		trustees and asked them what they thought, and	14:38:10 20		fired, they would leave Allegheny General?
14:35:14 21		they all said we think he should go. So I	14:38:12 21	A.	If he wasn't what?
14:35:20 22		didn't see him on Monday because of some	14:38:13 22	Q.	That if Mr. Abdelhak wasn't fired, they would
14:35:24 23		reason, I don't know whether his or mine, but,	14:38:17 23		leave Allegheny General Hospital?
14:35:26 24		anyway, I called him down to the office on	14:38:17 24	A.	Yes, and take as many others with them as they
14:35:28 25		Tuesday and fired him.	14:38:20 25		could.

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14:38:20 1	Q.	At this meeting that you had at Dr. Shannon's	14:41:35 1	expressed when you called up these other board
14:38:27 2		house on Sunday afternoon, did you attempt to	14:41:37 2	members?
14:38:30 3		argue with them or --	14:41:38 3	A. Yes, yes, yes
14:38:31 4	A.	No. No. I just let them talk and explain why	14:41:38 4	Q. Do you recall what views, if any, they
14:38:36 5		they felt that way and why others felt that	14:41:42 5	expressed in these telephone calls with you?
14:38:42 6		way.	14:41:43 6	A. Well, they all agreed. I do remember that. I
14:38:42 7	Q.	And I take it after that meeting, you then met	14:41:49 7	don't know what views they expressed, but they
14:38:48 8		or called up some other board members?	14:41:51 8	agreed in one form or another.
14:38:50 9	A.	Yes, I did.	14:41:53 9	Q. Do you remember any trustee coming to you
14:38:51 10	Q.	Who were they?	14:41:59 10	before this Sunday afternoon meeting at
14:38:52 11	A.	I called them on the phone.	14:42:03 11	Dr. Shannon's house --
14:38:54 12	Q.	Who were they?	12 A.	That's a very good question.
14:38:55 13	A.	I know Barnes was one, and I think I talked to	14:42:05 13	Q. -- to suggest that Mr. Abdelhak should be
14:39:09 14		Nimick and --	14:42:07 14	replaced?
14:39:13 15	Q.	Francis Nimick?	14:42:07 15	A. I can't give you a name, but it runs in the
14:39:14 16	A.	Yes. I don't recall all who I called, I really	14:42:20 16	back of my head that somebody did come to me
14:39:23 17		don't, but I called four or five of them.	14:42:22 17	about that. I don't remember who it was,
14:39:25 18	Q.	If we just look back at the minutes of the	14:42:24 18	though, and it certainly was in my mind too.
14:39:32 19		executive committee, I don't know if that would	14:42:52 19	Q. Do you recall whether the topic of the
14:39:33 20		at all help you to refresh your recollection as	14:42:55 20	repayment of the Mellon Bank loan was part of
14:39:35 21		to which trustees you may have called.	14:42:59 21	the conversation at Dr. Shannon's house?
14:39:38 22	A.	Well, is that important to you to know which	14:43:02 22	A. I can't recall whether it was or not. That's a
14:39:40 23		ones?	14:43:13 23	good point, though. I just don't remember.
14:39:40 24	Q.	It is, yes. Yes, it is	14:43:14 24	Q. And so then on Tuesday, you called Mr. Abdelhak
14:39:43 25	A.	I'll do my best	14:43:49 25	into your office and fired him?
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14:39:44 1	Q.	It's Exhibit 1651 just a few exhibits ago	14:43:51 1	A. Yes.
14:39:57 2	A.	Dansforth. Douglas Dansforth. I know I called	14:43:51 2	Q. And what did he say in this meeting?
14:40:02 3		him. I'm pretty sure I called Sculley. He's	14:43:57 3	A. You don't want to put that in the minutes.
14:40:19 4		my neighbor, and I trusted him a lot, but I	14:44:00 4	Q. He was upset?
14:40:22 5		can't be certain, but I'm pretty sure I would	14:44:02 5	A. Oh, that's putting it very mildly. The main
14:40:25 6		have called him. I don't know about Edelman.	14:44:07 6	thing he said to me was that I was making the
14:40:28 7		I did not call Brenner, because he's in	14:44:09 7	biggest mistake of my entire life, and he was
14:40:30 8		Philadelphia. I'd say I called Barnes and	14:44:13 8	raving, climbing the walls, so to speak.
14:40:33 9		Dansforth, Sculley, and maybe Edelman.	14:44:19 9	Q. Had you ever given any previous warning to him
14:40:43 10	Q.	And Mr. Nimick as well?	14:44:27 10	that his job was in jeopardy?
14:40:45 11	A.	I think I called Nimick. I'm not positive of	14:44:31 11	A. No. No.
14:40:49 12		that, but I think I did. He's an old -- very	14:44:32 12	Q. Well, I think I may have marked this last week,
14:40:55 13		old hand -- old head.	14:45:08 13	but I don't have the marked version here, so
14:40:58 14	Q.	And when you called these other board members,	14:45:13 14	I'll mark as Exhibit 1677 a one-page document
14:41:07 15		I take it that you started off by explaining to	14:45:15 15	with Bates No. TACO 52826.
14:41:09 16		them what Dr. Shannon and the other doctors had	16	-----
14:41:11 17		told you?	17	(Exhibit 1677 marked for identification.)
14:41:12 18	A.	I opened the meeting -- the conversation with	18	-----
14:41:17 19		my meeting with those four doctors and	14:45:34 19	BY MR. RYAN:
14:41:21 20		explained what they said and how they felt, and	14:45:34 20	Q. And if you could just take a moment to review
14:41:24 21		that I could heartily agree that it was time to	14:45:43 21	that, please, Mr. Snyder.
14:41:26 22		pull the plug on him.	22 A.	Yes, sir.
14:41:29 23	Q.	I'm sorry. I didn't quite hear that.	14:46:32 23	Q. And is this a letter that you sent to
14:41:31 24	A.	It was time for him to go.	14:46:34 24	Mr. Abdelhak dated June 5, 1998?
14:41:32 25	Q.	All right. So that was a view that you	14:46:37 25	A. Yes.

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14:46:37	1	Q. And I take it then this letter you more	14:49:19	1	Q. The documents I have suggest later in June.		
14:46:43	2	formally, in writing, advised him of a decision	2		I'm not sure.		
14:46:47	3	you had already told him about already?	14:49:23	3	A. Early June?		
14:46:49	4	A. That's what it was for.	14:49:24	4	Q. Later in June. I'm not sure of the exact date		
14:46:50	5	Q. And do you recall that before you sent this	14:49:27	5	myself.		
14:46:55	6	letter, there was a meeting of the executive	14:49:27	6	A. All right.		
14:46:57	7	committee of the board to discuss it?	14:49:28	7	Q. Does looking at this letter, Exhibit 1676,		
14:47:00	8	A. Yes.	14:49:35	8	dated June 5 help you to place in time when		
14:47:00	9	Q. And what do you recall about that meeting?	14:49:42	9	this Sunday meeting took place at Dr. Shannon's		
14:47:03	10	A. Nothing, except that, as far as I know, it was	14:49:57	10	house?		
14:47:10	11	unanimous to go through with this.	14:49:57	11	A. No, but I would -- several weeks before, but I		
14:47:14	12	Q. And whom -- well, strike that.	14:50:01	12	can't give you the specific date.		
14:47:21	13	Who was selected to replace	14:50:03	13	Q. Okay. I'm just asking for some general idea?		
14:47:24	14	Mr. Abdelhak?	14:50:06	14	A. Yeah. It was several weeks before this.		
14:47:26	15	A. Anthony Sanzo.	14:50:10	15	Actually, I'm trying to figure out who wrote		
14:47:28	16	Q. And who made that decision?	14:50:12	16	this letter, I mean, actually constructed it,		
14:47:29	17	A. Well, we had a meeting, a discussion about it,	14:50:17	17	because everything is in here. I just don't		
14:47:41	18	and I don't know whether it was in executive	14:50:24	18	know who constructed the letter.		
14:47:42	19	committee or what it was, but there were a	14:50:25	19	Q. But you actually signed the letter?		
14:47:44	20	number of people, trustees that were in on	14:50:27	20	A. Well, I agreed with everything it said, but I		
14:47:48	21	that. It was also my recommendation.	14:50:30	21	might have forgotten some of the things that we		
14:47:51	22	Q. And why was Mr. Sanzo your --	14:50:32	22	were obligated to do had I not had some advice,		
14:47:57	23	A. Well, he had all kinds of experience in this	14:50:39	23	which is only normal. I mean, I --		
14:48:04	24	field, and he was known by all the trustees.	14:50:40	24	Q. Sure. Sure. It looks like it's a lawyer -- it		
14:48:06	25	He reported at nearly all the board meetings.	14:50:45	25	uses the sort of legalese-type expression like		
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14:48:11	1	They knew what he was about, what his mind was	14:50:49	1	a lawyer in the letter.		
14:48:14	2	like, and he had done a very good job with	14:50:49	2	A. Well, that's what I think I think a lawyer		
14:48:18	3	Allegheny General, and, in my opinion, he was	14:50:50	3	wrote it.		
14:48:21	4	the obvious choice	14:50:52	4	Q. Let me hand you, Mr. Snyder, what's previously		
14:48:24	5	Q. Do you remember whether there were any trustees	14:51:18	5	been marked as Exhibit 1672, and there are a		
14:48:28	6	present at the meeting you're talking about	14:52:08	6	number of documents here, I believe, all from,		
14:48:30	7	who --	14:52:12	7	roughly, the July 1998 time frame. I wanted to		
14:48:31	8	A. Dissented?	14:52:18	8	ask you, first, about the document beginning on		
14:48:32	9	Q. Well, who suggested other candidates?	14:52:24	9	page 3109, using the numbers in the bottom		
14:48:34	10	A. No.	14:52:30	10	right corner		
14:48:35	11	Q. First of all?	14:52:38	11	A. Yes, sir.		
14:48:37	12	A. No.	14:52:38	12	Q. Which is a July 7, 1998 letter to the members		
14:48:37	13	Q. And I take it that you don't recall any trustee	14:52:43	13	of the board of trustees of AHERF.		
14:48:40	14	voting against the appointment of Mr. Sanzo?	14:52:47	14	A. Yes.		
14:48:42	15	A. No, sir.	14:52:49	15	Q. And it appears on the next page to be signed by		
14:48:42	16	Q. Then I take it some time later, Mr. McConnell	14:52:51	16	representatives of PNC Bank National		
14:48:51	17	was removed as AHERF's chief financial officer?	14:52:56	17	Association and of MBIA Insurance Corporation.		
14:48:55	18	A. Yes, and I went over that. David wanted to	14:52:59	18	14:52:59	18	A. Okay
14:49:01	19	know what I knew about that, and I don't recall	14:53:00	19	Q. If you wouldn't mind just reading this		
14:49:03	20	it at all I don't know who fired him or how	14:53:04	20	page-and-a-half-long letter, please.		
14:49:06	21	that came about. I don't know why I don't. I	14:54:58	21	A. Okay.		
14:49:09	22	just don't.	14:54:58	22	Q. Do you recall that in July 1998, two of AHERF's		
14:49:09	23	Q. Okay.	14:55:09	23	creditors, namely PNC and MBIA, offered to		
14:49:11	24	A. When did he depart? Some months later, I	14:55:15	24	provide financing to AHERF?		
14:49:19	25	think.	14:55:16	25	A. Yes		

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14:55:17	1	Q. And what do you recall about that?	14:58:41	1	Your view, in effect, was you didn't
14:55:19	2	A. Well, I recall that nobody wanted to put the	14:58:42	2	want to throw good money after bad?
14:55:29	3	western hospitals in jeopardy in this loan,	14:58:46	3	MR. MCCLENAHAN: Well, objection.
14:55:33	4	which, of course, is what it called for	14:58:47	4	That's your characterization, and I think
14:55:35	5	Q. When you say no one, you mean no one on the	14:58:49	5	that's putting words into the witness' mouth.
14:55:44	6	board?	14:58:51	6	He explained what his concerns were.
14:55:44	7	A. Generally speaking, the trustees did not like	14:58:53	7	A. I told you what my concerns were, and it was
14:55:48	8	the idea of putting the western hospitals up as	14:58:56	8	just that I wanted to save this one hospital.
14:55:54	9	collateral.	14:58:59	9	Q. Allegheny General?
14:55:54	10	Q. And that appears to be what PNC and MBIA are	14:59:00	10	A. I wasn't sure, yes, how long it could last,
14:56:09	11	referring to in the third paragraph when they	14:59:07	11	but --
	12	state --	14:59:09	12	Q. Let me ask you about another letter from MBIA
14:56:11	13	A. Yes, it does. Yes.	14:59:12	13	which is a few pages before that in this
14:56:12	14	Q. -- we have heard that the AHERF board has	14:59:15	14	exhibit. It's at the page ending in 3102.
14:56:15	15	recently expressed strong reservations with	14:59:21	15	A. 102?
14:56:17	16	respect to making the credit of the west	14:59:22	16	Q. Yes, sir.
14:56:19	17	available to support the east?	14:59:28	17	A. Okay.
14:56:20	18	A. Yes.	14:59:30	18	Q. And if you could just take a moment to review
14:56:21	19	Q. They go on to state in this letter: The	14:59:34	19	this letter from Richard Weill of MBIA.
14:56:24	20	board's current position is inconsistent with	15:00:56	20	A. All right.
14:56:27	21	its actions in the past and is particularly	15:00:59	21	Q. What I wanted to ask you about particularly is
14:56:31	22	unfortunate in view of the system-wide need for	15:01:04	22	the third paragraph where Mr. Weill writes:
14:56:33	23	financing.	15:01:09	23	Our advisors indicate that the sale of the
	24	A. Yeah.	15:01:11	24	entire system would very likely yield a
14:56:36	25	Q. Did you have a view at the time about this view	15:01:15	25	purchase price well in excess of all the debt.
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14:56:40	1	that PNC and MBIA were expressing?	15:01:18	1	Do you recall that?
14:56:46	2	A. Well, I thought it was unfortunate we'd have to	15:01:20	2	A. I don't remember that statement.
14:56:50	3	do that, but that's where we were.	15:01:22	3	Q. Do you recall more generally MBIA stating that
14:56:54	4	Q. What view did you have as to whether the board	15:01:27	4	they thought the need for a bankruptcy filing
14:57:03	5	should make the credit of the west available	15:01:31	5	could be obviated or avoided by sale of the
14:57:06	6	for the east?	15:01:34	6	entire system?
14:57:08	7	A. Well, I don't remember how I felt at the time,	15:01:35	7	A. No, I don't remember that.
14:57:19	8	but I sort of remember that I was not in favor	15:01:36	8	Q. Do you recall that ultimately the bankruptcy
14:57:23	9	of it.	15:01:59	9	filing was made for AHERF and certain of its
14:57:26	10	Q. Why not?	15:02:05	10	affiliates, but that the western hospitals were
14:57:27	11	A. Well, for the same reason. I wanted to	15:02:06	11	kept out of bankruptcy?
14:57:31	12	preserve the Allegheny General, not see it go	15:02:08	12	A. Yes.
14:57:37	13	belly up along with all the rest. By that	15:02:08	13	Q. And did you agree with that way of structuring
14:57:44	14	time, it was sort of a foregone conclusion in	15:02:15	14	the bankruptcy filing?
14:57:50	15	my mind that the ones in the east were in	15:02:16	15	A. Yes.
14:57:51	16	terrible, terrible trouble and probably	15:02:16	16	Q. And why did you think that that was
14:57:54	17	couldn't be saved.	15:02:19	17	appropriate?
14:57:59	18	Q. Did you meet or talk by phone with	15:02:19	18	A. Well, for the same reason I gave you on others,
14:58:10	19	representatives of PNC Bank or MBIA in the July	15:02:25	19	that we were able to preserve Allegheny
14:58:16	20	1998 time frame?	15:02:27	20	General.
14:58:17	21	A. I personally did not. I think most of those	15:02:27	21	Q. Did you have a view at the time as to what had
14:58:21	22	negotiations were done through David.	15:02:45	22	created the need for AHERF to file for
14:58:23	23	Q. David Barnes?	15:02:48	23	bankruptcy?
14:58:25	24	A. McConnell	15:02:51	24	A. The numbers. They were bleak. There wasn't
14:58:26	25	Q. Oh, I see. McConnell.	15:02:59	25	much left.

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15:03:00 1	Q.	And did you have a view as to what factor or factors had caused that condition at AHERF?	15:06:32 1	A.	Yes, I was concerned with that.
15:03:04 2			15:06:35 2	Q.	Did you think that there were too many members?
15:03:08 3	A.	There were so many of them that I couldn't sit and list them. There were a number of factors	15:06:38 3	A.	Too many. Too many, yes.
15:03:14 4		that, over a period of three years, arrive at	15:06:41 4	Q.	How did you feel that that affected the board meetings?
15:03:21 5		this converging point.	15:06:49 5	A.	Well, I felt it made the board unwieldy, and we
15:03:26 6		MR. MCCLENAHAN: We just spent five hours working through those factors.	15:06:49 6		had so many people that we hardly had enough chairs, and I didn't think it was necessary to
15:03:29 7		THE WITNESS: Yeah.	15:07:00 8		have all those people, but when you have that,
15:03:31 9		MR. MCCLENAHAN: I mean, if you really expect the witness to answer that question after all this time, it seems to me we should go back over what we just spent the rest of the day working through.	15:07:02 9		you always worry about you're going to hurt somebody's feelings when you -- somebody that's important to you down the road, but you have to do it sometimes.
15:03:44 10	A.	I can't give you all the reasons, but they were all written right in front of us. They're in that pile there.	15:07:19 14	Q.	I think you mentioned previously that sometimes you thought that the volume of materials sent to board members prior to meetings was quite voluminous?
15:03:47 15			15:07:28 15	A.	Yes, sir.
15:03:48 16	Q.	The reasons are, generally speaking, the market factors and how AHERF acted in response to those factors?	15:07:36 18	Q.	Did board members make comments about couldn't we cut down on the volume of material?
15:04:01 17	A.	Yes.	15:07:45 21	A.	Always. Always. Many times.
15:04:22 22		MR. MCCLENAHAN: Are you finished with this?	15:07:48 22	Q.	And did that happen?
15:04:23 23			15:07:50 23	A.	Well, I think attempts were made. I don't think it happened very materially.
15:04:24 24		MR. RYAN: Yes, I am	15:08:01 25	Q.	How far in advance of board meetings would you
15:04:25 25	BY MR. RYAN:				
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15:04:25 1	Q.	Did you remain on the AHERF board after the bankruptcy filing?	15:08:11 1		receive board materials?
15:04:33 2			15:08:12 2	A.	Several days.
15:04:36 3	A.	I don't know when I got off.	15:08:14 3	Q.	Did you feel that that was a long enough time in order to review those materials?
15:04:39 4	Q.	Was there a time when you left the board?	15:08:20 5	A.	At times, I thought so. Other times I didn't,
15:04:42 5	A.	Oh, sure, but I don't know exactly when it was.	15:08:30 6		depending on how important the subjects were under consideration.
15:04:47 6		Does it show? I can't tell you.	15:08:33 7	Q.	Did you talk to anybody at AHERF about sending out materials farther in advance of meetings?
15:04:48 7	Q.	I can't either.	15:08:36 9	A.	I don't believe so.
15:04:50 8	A.	Really?	15:08:43 10	Q.	Do you recall any board members raising that as a concern to you, the length of time they had to consider the materials?
15:04:51 9	Q.	Yes.	15:08:49 12	A.	I believe I remember one or two saying that at times.
15:04:52 10		MR. MCCLENAHAN: That's enough. If you don't remember, all you need to do is say so, and then he'll ask you another question.	15:09:04 15	Q.	Did you believe that sometimes the AHERF board meetings didn't last as long as might have been helpful to get through all the material?
15:04:54 11			15:09:10 16	A.	Well, I think there were times it was cut short, but most of the time we covered the entire agenda.
15:04:56 12	A.	I don't remember when I got off the board of AHERF.	15:09:18 17		Remember, these people not only had these board meetings, but all of them were on committees, and they all had voluminous minutes to go through. So it was quite a bunch of
15:04:58 13	Q.	Do you recall why you got off the board of AHERF?	15:09:22 18		
15:05:01 14	A.	Yes, because I was no longer wanted or needed.	15:09:31 19		
15:05:06 15	Q.	And was that a conclusion you reached or is that something that you were told by somebody?	15:09:34 20		
15:05:06 16	A.	I don't believe so. I think I came to that myself. It was time to go.	15:09:36 21		
15:05:32 20	Q.	Let me shift topics, if I could, and ask some questions about the board meetings. Did you have concern in the 1990's with the number of members on AHERF's board?	15:09:38 22		
15:06:06 22			15:09:39 23		
15:06:25 23			15:09:42 24		
15:06:29 24			15:09:45 25		

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15:09:50	1	paper	15:15:08	1	and board committees with each meeting
15:09:51	2	Q. Trust me, I've seen the bunch of paper.	15:15:11	2	generally scheduled to last approximately two
15:09:57	3	Were there efforts undertaken to try	15:15:14	3	hours. Are the meeting schedules and the
15:09:59	4	to reduce the number of boards and committees	15:15:16	4	number and length of meetings currently
15:10:03	5	at AHERF?	15:15:18	5	appropriate in light of the time needed to
15:10:13	6	A. I don't remember. I think we made an attempt	15:15:19	6	conduct the business which is the
15:10:18	7	at that some time along the line.	15:15:21	7	responsibility of the board? And you answered,
15:10:23	8	Q. Let me mark a new document as Exhibit 1678. It	15:15:23	8	Yes, just barely. Is that right?
15:10:36	9	bears Bates Nos. PRPLD 02002244 through 49.	15:15:26	9	A. Well, we talked about that before.
10		-----	15:15:27	10	Q. So that you thought that either there should be
11		(Exhibit 1678 marked for identification.)	15:15:31	11	more meetings or the meetings ought to last
12		-----	15:15:35	12	longer?
15:11:10	13	A. Oh, I forgot about this.	15:15:35	13	A. For my purpose, it was very difficult to hold
15:12:20	14	Number 4 under meetings was something	15:15:47	14	meetings longer than two hours, you couldn't
15:12:22	15	that I tried to promote all the time, but	15:15:49	15	keep the trustees any longer than that, and if
15:12:25	16	didn't have too much luck.	15:15:51	16	you just had this to deal with and not the
15:12:30	17	Q. Oh, you're talking about short site visits?	15:15:54	17	committee meetings, then we should have had
15:12:33	18	A. Yes. Sometimes you could get a few to come,	15:15:56	18	more board meetings, but you had the committees
15:12:38	19	but -- because I made site visits all the time,	15:15:58	19	also. So you were putting a big burden on
15:12:42	20	and I thought others should too.	15:16:00	20	people of their free time. That's why I put
15:13:05	21	MR. MCCLENAHAN: Are there specific	15:16:05	21	just barely.
15:13:06	22	questions about this document?	15:16:06	22	Q. Let me ask you about the section headed Time
15:13:07	23	MR. RYAN: Yeah. I'm just -- I think	15:16:22	23	Commitment on the fourth page.
15:13:09	24	the witness is almost through looking through	15:16:27	24	A. Where are you?
15:13:10	25	it. I do have a number of specific questions.	15:16:28	25	Q. The page ending in 2247 in the bottom right
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15:13:36	1	THE WITNESS: Okay.	15:16:33	1	corner.
2		BY MR. RYAN:	15:16:33	2	A. Oh, okay. I've got you. Go ahead.
15:13:37	3	Q. All right. Let me ask, first of all, is this a	15:16:35	3	Q. Time commitment?
15:13:41	4	trustee evaluation form that you filled out and	15:16:36	4	A. Yes.
15:13:43	5	signed?	15:16:36	5	Q. Question 1 reads: Approximately how much time
15:13:43	6	A. Yes, it is.	15:16:40	6	per month do you spend in carrying out your
15:13:49	7	Q. Do you see down the bottom of the first page,	15:16:44	7	trustee responsibilities? And your answer was:
15:13:52	8	Board Materials, question 5 reads: If you	15:16:47	8	One to two hours per day. Right?
15:13:56	9	believe that you need additional information in	15:16:49	9	A. Yeah.
15:13:59	10	order to make informed decisions on particular	15:16:50	10	Q. I take it that due to the fact that you were
15:14:01	11	issues which come before the board, is it clear	15:16:53	11	chairman of the board and served on, as we've
15:14:05	12	to you how to go about seeking that additional	15:16:56	12	seen, many different committees and boards, it
15:14:10	13	information? You checked no.	15:16:58	13	was your feeling you spent a substantial amount
15:14:12	14	A. Right.	15:17:00	14	of your time on board activities?
15:14:13	15	Q. Were there occasions where you wanted to get	15:17:02	15	A. Well, I was right in the building, and I was --
15:14:17	16	additional information from AHERF management?	15:17:07	16	the company was paying for my office, so I
15:14:18	17	A. I'd say more concise rather than additional.	15:17:09	17	tried to do it.
15:14:24	18	Q. And who did you go to to try to get more	15:17:10	18	When I said one to two hours a day,
15:14:31	19	concise information?	15:17:12	19	that wouldn't be every day, meaning some day
15:14:34	20	A. Well, I went to Sherif, or if it was	15:17:15	20	you might spend more than two or three hours,
15:14:37	21	appropriate, I would go see Nancy or David	15:17:17	21	and sometimes you might spend less.
15:14:42	22	McConnell or maybe one or two others.	15:17:19	22	Q. Understood.
15:14:52	23	Q. Then on the second page under Meetings,	15:17:19	23	A. Yes.
15:15:02	24	question 1 reads: The current board schedule	15:17:20	24	Q. And I take it that due to your role on the
15:15:05	25	calls for four meetings per year of most boards	15:17:28	25	board, you weren't expecting other trustees to